annual
report
1979

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corporation

CONTENTS:

FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

	1979	1978
FOR THE YEAR		
Net sales	$2,578,000	$2,454,000
Income before extraordinary credits	34,600	37,200
Primary earnings per share	4.55	4.52
Fully diluted earnings per share	4.02	3.92
Common dividends paid per share	.60	.40
Capital additions	60,300	37,600
Depreciation and amortization	29,900	28,600
AT YEAR END		
Working capital	$ 601,700	$ 618,600
Property, plant and equipment—net	294,400	270,100
Long-term debt	782,700	812,000
$3.00 redeemable preference stock	53,500	–
Preferred and common stockholders' equity	195,900	222,400
Stores opened during year	115	95
Stores operated at year end	1,627	1,566

This report is in honor of the management of Rapid-American's family of companies.
The theme of the report—"Management in Motion"
is a tribute to the energy, creativity, dedication and concerted efforts
of the people responsible for our continuing progress
and the excellence of our products and services.

TO OUR STOCKHOLDERS

I am pleased to report that after-tax earnings from operations for 1979 were $34,600,000 compared with $37,200,000 in 1978 before extraordinary credits. Sales in 1979 reached a record high of $2,578,000,000 compared with $2,454,000,000 in 1978. Considering the *unprecedented soaring interest rates* that prevailed during 1979 and the increased effect of the LIFO method of valuing inventories during a period of record inflation, it is understandable that earnings would be reduced. That the decline in earnings was held to a modest 7% is indeed a tribute to the vitality, strength and resilience of our operating units, and the dedication, creativity and hard work of our employees at all levels.

We are continuing the expansion program at both Lerner Stores and McCrory Stores. Lerner Stores, which is the largest contributor to operating profits, opened 83 new stores in 1979, and is scheduled to open 80 new stores in 1980. McCrory Stores for the second consecutive year, in an exceptional performance, achieved record sales and earnings and will continue to open new 10,000 square foot prototype stores. Schenley contributed its usual dependable earnings, and is now concentrating on marketing its outstanding brand names.

Progress has been made in McGregor-Doniger, acquired in the second quarter of 1979. Management of McGregor-Doniger is concentrating its efforts on restoring the *McGregor* label to its historical preeminence in the men's sportswear field. In men's designer shirts, the Handcraft and Bert Pulitzer acquisitions were consolidated and we are proud to have added such prestigious names to our existing labels in the apparel field featuring *Botany '500', Wonderknit, Coat Tails, Gilead, Beau Brummell* and *Saddle Club*.

At January 31, 1980 our bank indebtedness was at the lowest level it has been in more than a decade.

In response to the exchange offers made in the last quarter of 1979, over 2,050,000 shares of common stock and shares of convertible preferred stocks, convertible into approximately 620,000 shares of common stock, were acquired in exchange for approximately 2,670,000 shares of our new $3.00 redeemable preference stock. At January 31, 1980 approximately 5,100,000 shares of common stock were outstanding.

Recently, a series of management promotions were instituted to strengthen senior management by elevating younger executives to more responsible positions at both the corporate and divisional levels. Mr. Lorence A. Silverberg was elected President and Chief Operating Officer of Rapid-American and will continue as Chairman of the Board and Chief Executive Officer of McCrory Corporation. Mr. Arie Genger was promoted to President and Chief Operating Officer of McCrory Corporation. At Lerner Stores, Mr. Karl Margolis continues as Chairman and Chief Executive Officer, and Mr. Arthur Strickman was promoted to President and Chief Operating Officer. At McCrory Stores, Mr. Ben Litwak was promoted to Chairman and Chief Executive Officer and Mr. J. Philip Lux was promoted to President and Chief Operating Officer.

In addition, we have established an Office of the Chairman which will consist of myself, Mr. Silverberg, and Mr. Harold S. Divine, who will head the Office, which will be responsible for strategic and long-term planning for the Corporation.

Mr. Bernard Kobrovsky, a member of our board for the past 20 years is retiring and will not stand for re-election. We are grateful for his wise counsel over the years, and wish him well in his retirement. Mr. Daniel J. Manella, Chairman of Kenton Corporation, has recently been elected to serve on our Board.

We are concerned regarding the present state of our nation's economy, and what it augurs for the future. We hope that the economic problems confronting the nation will soon be remedied and that our economy will re-emerge stronger, more vibrant and more productive than ever.

As previously announced, it is anticipated that a merger proposal will be presented to our stockholders in the near future (see Note 24 to Financial Statements). Accordingly, the Board has determined to defer the Annual Meeting of Stockholders until such time.

Sincerely,

Chairman

April 18, 1980

Assistant managers attending a training seminar . . .

Store executives checking fashion displays . . .

Training assistants in store management . . .

ping centers.

The new stores are generally in the 5,000 to 6,000 square foot range, which size has proved to be successful. Sales in these stores typically exceeds $100 per square foot in the initial year with economies in operating costs resulting from the smaller, more compact store area.

Our store modernization program was continued with 39 stores being upgraded and refixtured. This program will continue in 1980 as we approach our goal of a completely contemporary chain of outstanding stores carrying the Lerner name in every significant market area.

Two Jenny Lane stores were opened in 1979. These are experimental stores, smaller in size than the typical new Lerner store, different in design and with limited, edited merchandise assortments. This new concept appears highly promising and will be carefully evaluated to determine its potential.

Lerner has always been one of the outstanding companies in the apparel specialty store field. Innovative and aggressive management during the past year and the years ahead will insure continued excellence and outstanding performance of this highly successful company.

Keeping up with the latest fashion trends . . .

Karl L. Margolis
Chairman and Chief Executive Officer

D. John Palladino
Vice Chairman and Chief Financial Officer

Arthur E. Strickman
President and Chief Operating Officer

Marc J. Reiss
Executive Vice President, Operations

Joseph K. Birmingham
Executive Vice President, Real Estate

Herman D. Epstein
Executive Vice President,
General Merchandise Manager

Senior Vice Presidents

Seymour Cohen—East Coast Operations
Charles J. Costa—Labor Relations
Nathan B. Epstein—Merchandising
Michael Goldstein—Treasurer
John S. Merolla—Store Operations
Marvin Eichelbaum—Chicago Regional Office
Arnold Friedman—Atlanta Regional Office
Ralph L. Leventhal—Los Angeles Regional Office
Melvin J. Redmond—Jacksonville Regional Office
Morey Somach—Dallas Regional Office
John W. Watkins—Pittsburgh Regional Office
Lawrence Yeston—Denver Regional Office

Harold M. Lane, Sr.—Chairman Emeritus

McCRORY STORES

The year 1979 was a milestone year for McCrory Stores as record sales and earnings were achieved. McCrory Stores operates 715 retail variety stores throughout the United States under such familiar names as McCrory, McLellan, H.L. Green and J.J. Newberry.

Management is accelerating the development of its new prototype store concept. During 1979, five prototype stores were opened, bringing the total to nine. Also, seven new *"Capt. Mac's,"* our fast food units, were opened, including four free-standing units. The successful development of both the prototype stores and Captain Mac's concepts reflect McCrory's innovative approach to "Management in Motion," the theme of this year's Annual Report. We expect all of these new units to achieve their operating goals in 1980.

McCrory Stores' on-going program of updating and remodeling existing stores also continued during 1979 with 57 stores undergoing "bootstrap" facelifts; at the same time 11 stores were extensively rehabilitated.

In order to insure the continued development of management capable of directing the McCrory Stores' future growth in the years ahead, our training efforts have been intensified by developing meaningful seminars available to middle management personnel in the field as well as at headquarters. This, too, is another instance of McCrory Stores' "Management in Motion."

We recognize that our record performance in 1979 could not have been achieved without the initiative, hard work and loyalty of our dedicated employees at store, district, regional and headquarters level. To them we give special thanks, secure in our firm belief that with their continued untiring efforts 1980 will be even a better year for McCrory Stores.

Ben Litwak
Chairman and
Chief Executive Officer

J. Philip Lux
President and
Chief Operating Officer

Charles Gass
Executive Vice President

William R. Tallman
Senior Vice President, Operations
and Field Merchandise Director

Vice Presidents

Richard Baldassarre
General Merchandise Director

Anthony L. Clifford
Prototype Stores

William E. Davis
Financial Planning and
Investment Control

Joseph J. Hainey
Movement of Goods

Harold R. Hughes
Administration

Irwin J. Hyman
Real Estate and Legal

Willard L. Morton
National Sales Manager

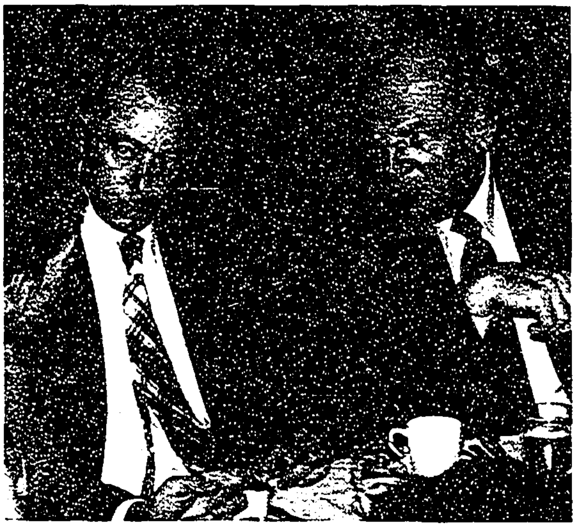
Donald Noll
Food Service

Kenneth Phillips
Informatics

Leon Robbins
York Distribution Company

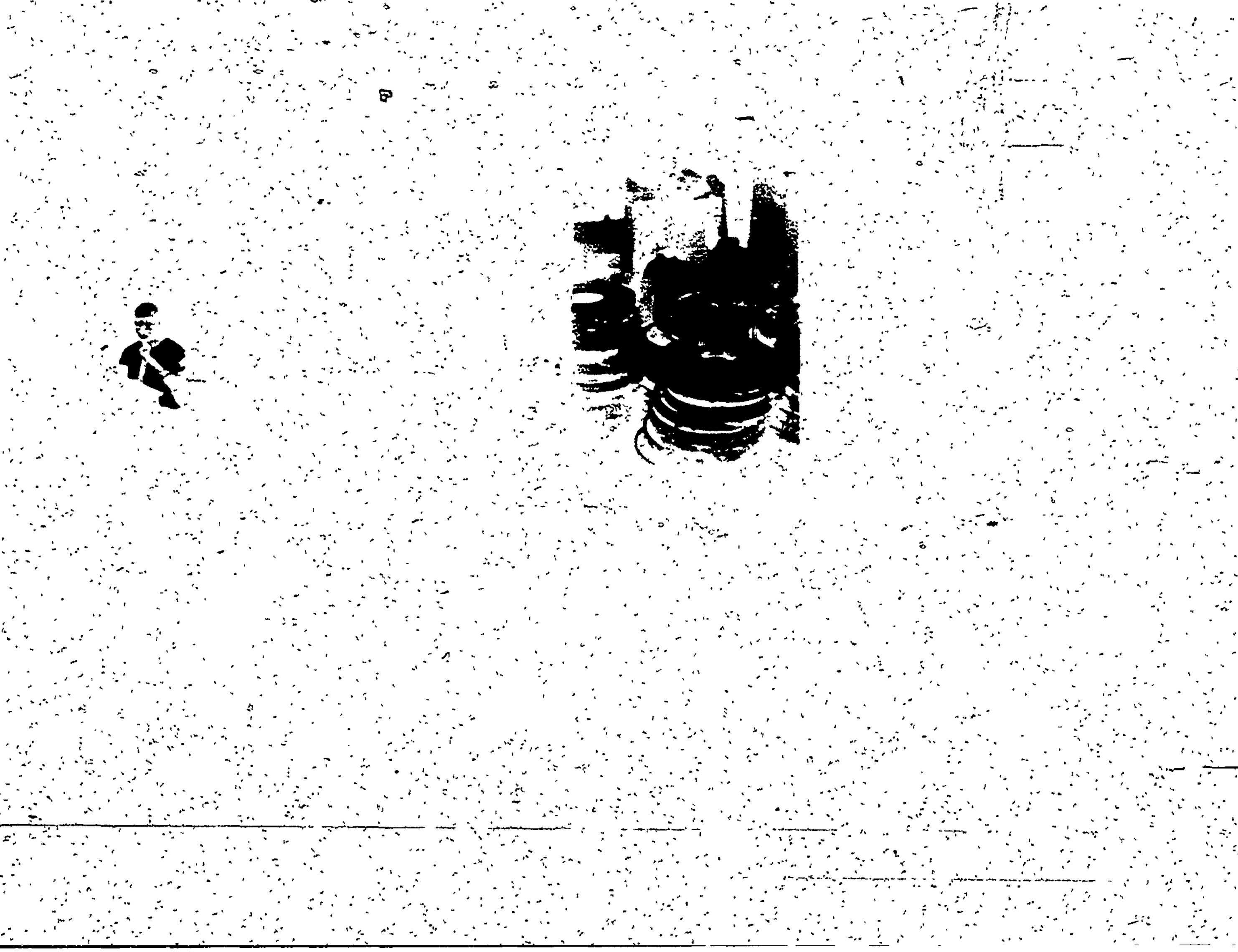
George B. Stephens Jr.
Controller

James A. Tonges
Personnel

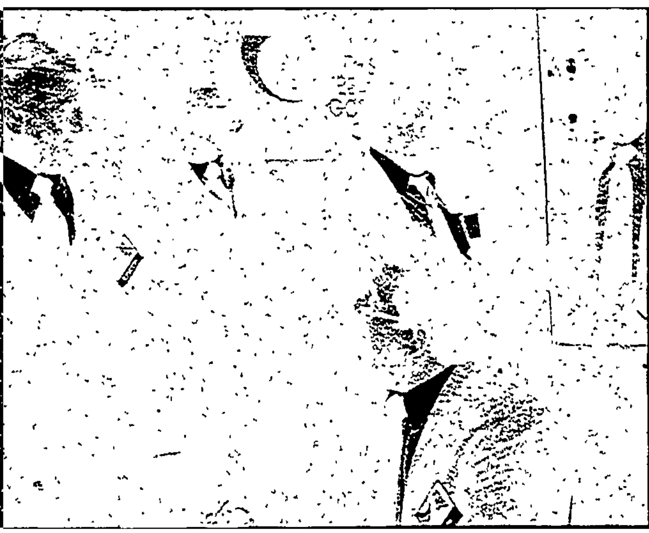


Executives interchanging ideas . . .

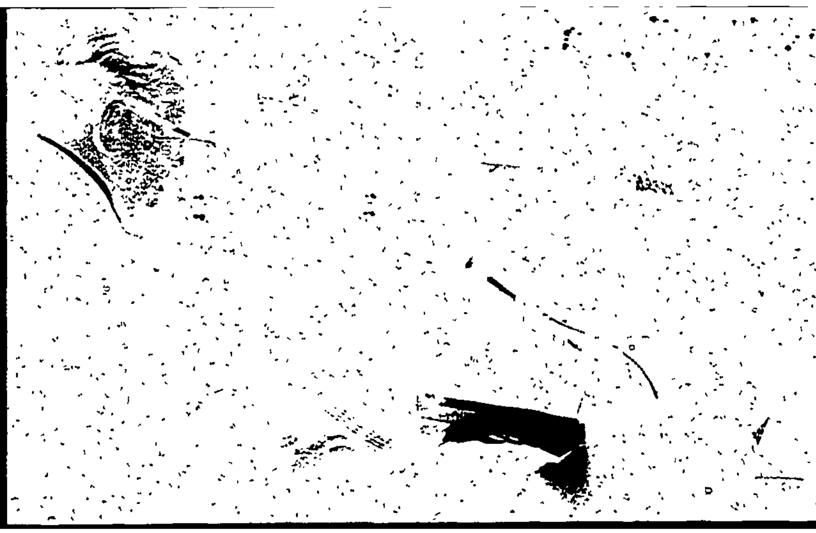
Future managers at a training session . . .



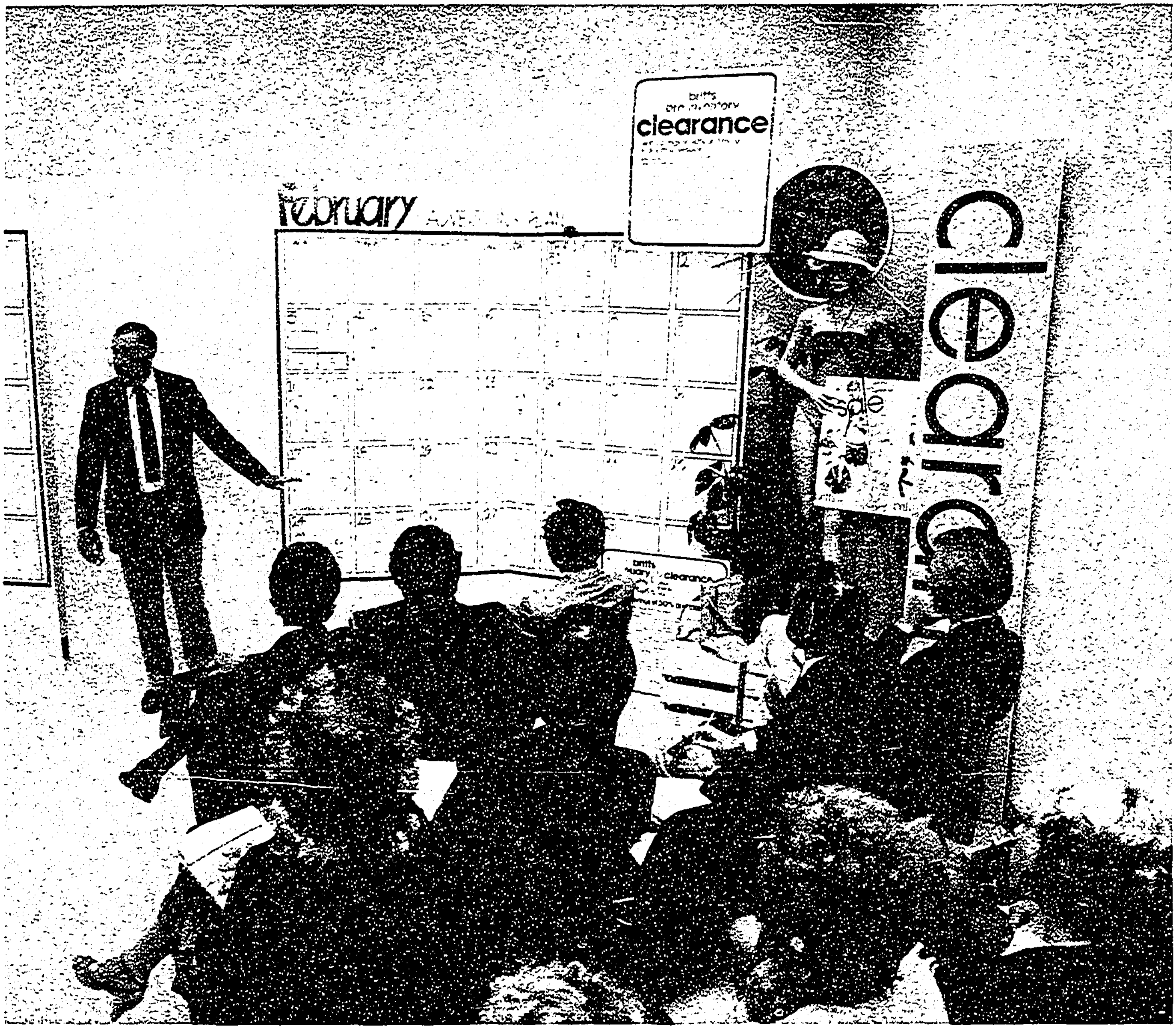
Middle management personnel attending multi-media seminar . . .



Top executives at a review meeting . . .



Key management presiding at annual store executives meeting . . .



Store managers getting a briefing on salesmanship . . .

BRITTS

Britts sells moderately priced well-known brand name apparel and accessories for men, women and children. Quality domestics, housewares, small appliances, stereos and televisions, giftware, china and glass also contribute significantly to sales. Our Florida stores also offer a full line of furniture.

In 1979 Britts achieved record sales in its five South Florida stores as the result of management's continuing program to concentrate operations into the fast-growing market areas of this sun-belt state. Non-Florida stores in secondary market areas which have been static or declining are being phased out. Seven were closed in 1979 and others are slated for closing in 1980. At the year end Britts operated fourteen department stores in six states.

In 1979, sales volume generated in the five South Florida stores rose to 51% of Britts' total volume, from 39% in 1978. 45% of the Britts selling capacity is currently accounted for by Britts' South Florida stores compared with 33% at the end of 1978. The increase in the importance of the compactly grouped South Florida stores will continue in 1980.

George W. Baylis
President

Steve Jackel
Executive Vice President

Anne Kartushyn
General Merchandise Manager

Roscoe Kirby
General Merchandise Manager

A. Matt Crea
Controller

John B. Brown
Personnel

Middle management sharing ideas at a regional meeting . . .

OTASCO

By putting into practice last year's slogan "In 1979 the Key is Productivity," OTASCO exceeded its sales and earnings goals for the year. A well-planned sales program, designed for a year of uncertainty, generated the largest year-to-year sales increase in the last decade.

OTASCO, classified as a Specialty Store, is a service-oriented operation merchandising commodities for the car, home and leisure. OTASCO operates Company owned stores and services associated stores. Recognizing the resurgence of the Specialty Store, and conditioning the sales organization for this recent development, average sales per store increased dramatically in both the Retail and Wholesale Divisions.

OTASCO's store expansion program has surpassed previous years with the opening of 15 new Company owned stores and 16 associate stores throughout the Sunbelt States, bringing the combined total to 681 at year end.

We have instituted comprehensive training programs in the areas of sales and management. Studies have been made and programs are being implemented for better store ordering procedures and inventory control through increased use of computers, better physical distribution through modernized facilities and equipment, and further modernization of the program of credit sales—which account for the majority of our retail sales.

In selling a large number of high-ticket items, as we do, experienced and well-trained salesmen play a major role in the success of OTASCO.

With continued favorable economic conditions in the South and Southeast 13-state operating area, OTASCO plans and looks forward to continued growth and progress.

Store managers reviewing new product lines . . .

Honoring the Manager of the Year . . .

Edgar R. Sandlten
Chairman of the Board

Abe Brand
Vice Chairman of the Board

Ely G. Sandlten
Chairman of the Executive Committee

A. Arnold McNatt
President

Jerry L. Goodman
Vice President and General Counsel

Vice Presidents

Paul Marks—Real Estate

Donald Mann—Store Operations

Robert E. Shireman—Wholesale Division

J. R. Behl—Distribution

Jerry T. Kelly—Eastern Division

Fay D. Pingree, Jr.—Store Operations

Curtis L. Rohr—Data Processing

William S. Woodward—Merchandising

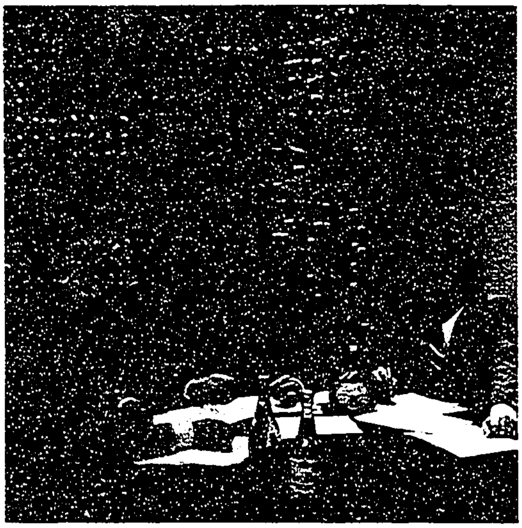
Helen Mason—Secretary

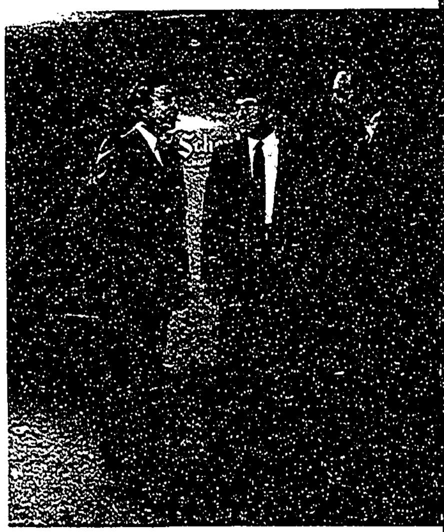
Calvin Gilbert—Treasurer

Isidore A. Becker
Chairman and Chief Executive Officer
Howard S. Feldman
President
David A. Chernow
Senior Executive Vice President
Adolph Slone
Executive Vice President
Joseph A. Morelli
Vice President
Bruce E. Meacham
Vice President/Finance
Ephraim Spirn
Treasurer

The major brand names of Schenley:
STRAIGHT BOURBONS:
Old Charter, Charter 10, I. W. Harper, Ancient Age, J. W. Dant
AMERICAN WHISKEY:
Schenley Reserve
SCOTCH WHISKIES:
Dewar's "White Label", Dewar's "12", Ne Plus Ultra, Dewar's Malt 12-year-old, J. W. Dant
IRISH WHISKEY:
Power's Gold Label
CANADIAN WHISKIES:
O.F.C., MacNaughton
TENNESSEE WHISKY:
George Dickel
BRANDIES:
Coronet VSQ, Stock '84 (Italy), *Asbach* (Germany), *Pedro Domecq* (Spain, Mexico)
GINS:
Schenley Extra Dry, Plymouth (England)
VODKAS:
Samovar, Schenley, Wyborowa (Poland)
RUMS:
Cruzan, Carioca, Old St. Croix (all Virgin Islands)
TEQUILA:
Olé (Mexico)
PREPARED COCKTAILS:
Cocktails for Two
LIQUEURS AND CORDIALS:
DuBouchett, Schenley, Glayva (Scotland), *Stock* and *Strega* (Italy), *Ambrosia* (Canada)
APERITIFS AND VERMOUTHS:
Dubonnet Red and Blonde, *Lillet* (France), *Stock* Dry and Sweet Vermouth (Italy)
WINES:
France: *Canard Duchene, Krug* (Champagne), *Chateau Beychevelle, Maison Bichot, Chateau Latour, Schroeder & Schyler, LaCour Pavillion, Chateau Petrus, Pierre Jean, F. E. Hugel et Fils, Maison Joseph Drouhin, Maison J. Faiveley, Domaine Comte Georges de Vogue, Ackerman Laurance, Delas Freres, Chateau Giscours*
Germany: *Guntrum*
Greece: *Cambas*
Italy: *Bigi, Calissano, Fantanafredda, Fratelli Lambrusco, Lamberti, Melini, Negri, Santi, Vaja Villa D'Oro, Verrazzano*
Portugal: *Mateus* Rosé, *Mateus* White, *Aveleda, Grao Vasco, Casal Garcia, Noval Port*
Spain: *Cruz Garcia Réal Sangria, Pedro Domecq* sherries, *Siglo, Domecq Domain*
Switzerland: *Dézaley L'Arbalete*
SAKI:
Hakutsuru (Japan)

Top management exchanging views on product development . . .





Executives of Schenley's selling companie

SCHENLEY INDUSTRIES

To successfully reach the consumer, Schenley management has combined superior products, aggressive advertising and merchandising, expert and dedicated personnel and flexible strategies into a dynamic marketing force.

Spirits and wine marketing in the U.S. is a "people business" in which the substantial advertising and display expenditures are only effective when reinforced with active personal involvement. At Schenley, executives at every level are constantly in touch with all segments of the market. Field sales representatives meet regularly with the principals and sales forces of the wholesale houses that sell Schenley products. In contacts such as these, facts and figures concerning market and category and brand performances and potentials are developed and exchanged, and short-term and long-range strategies are discussed.

An important catalyst in Schenley's commitment to personal involvement is its national sales conference attended by top management, the entire sales and merchandising groups and key home-office and production staff members. New advertising and merchandising techniques are reviewed, and there is a free participation in the work session discussions that encourages an enthusiastic esprit de corps.

Schenley promotes from within. The Company has a strong group of developing executives, and a training program in which promising young men and women are exposed to all facets of operations in a sequence tailored to each individual's interests and capabilities.

In its planning for 1980, Schenley has budgeted the largest advertising expenditures in the Company's history. Scheduled for special emphasis are *Dewar's "White Label"* Scotch Whisky, *Mateus Rosé* and *Mateus White* wines from Portugal, *Cocktails for Two, George Dickel* Tennessee whisky, *Fratelli Lambrusco* from Italy, *Cruz Garcia Real Sangria* from Spain, *Cruzan* and other Virgin Islands rums, *Pedro Domecq* products from Spain and Mexico and *Old Charter* and *I.W. Harper* straight Bourbon whiskies.

Last year's excellent results were highlighted by the record of *Dewar's "White Label"*, Schenley's leading brand. *"White Label"* scored appreciable gains in 45 of the 50 state markets, and performed significantly better than any other leading premium Scotch whisky.

Cocktails for Two, the Schenley line of prepared cocktails that made its debut only three years ago, is already a leader in its category.

In the expanding table wine market, Schenley's leading brand is *Mateus* with its rosé and white from Portugal. Schenley also represents many other prestigious wines from throughout the world.

In the highly profitable category of super-premium U.S. whiskies, *Schenley's Charter "Ten"* and *George Dickel* recorded important advances.

Excellent performances also were registered last year by *Schenley's Coronet* brandy, *Dubonnet* aperitif wine, *Stock* cordials and vermouths from Italy, *Pedro Domecq Presidente* brandy and *Cruzan* rum.

Following this excellent year Schenley's people, products and plans are in place and the Company is poised to grow in the 1980's.

ıandling a wide range of company activities . . .

Annual sales and planning sessions involving all levels of management . . .

BOTANY '500'

In 1979, the Botany '500' concept of "branded value" proved itself in a climate of increasing economic uncertainty. Botany '500' sales reached record levels as the consumer searching for assured value in a year of double-digit inflation, turned in record numbers to the Botany '500' brand name for his suits and sportcoats. Management moved to capitalize on and expand this trend with extensive advertising campaigns in magazines and newspapers and on television and radio in all major markets. To use a play on words, "Botany '500' suits America" at a price fully commensurate with the intrinsic value of the garment, and well within the range that the average American consumer can afford to pay in these inflationary times.

We believe that the *"Botany '500'"* label is now a leading label in the tailored clothing industry. Accompanying the fame of the *"Botany '500'"* label has been a corresponding increase in our program of licensing both nationally and internationally the use of the *"Botany '500'"* label on an extensive line of apparel and accessories for men, women and children.

We continue to aggressively promote our *"Cartier"* Collection featuring the European look for the young male adult and the executive. The *"Cartier"* Collection has become one of our fastest growing lines.

Botany '500' has instituted a major inventory control program substantially reducing working capital requirements to maintain our unprecedented record of cost containment.

Undaunted by the present national economic uncertainties, Botany '500' looks forward with confidence to 1980 secure in the knowledge that our name, product, and value will continue to enjoy its well earned and well deserved acceptance in the marketplace.

Maurice A. Halperin—Chairman and Chief Executive Officer
Lawrence Glazer
President
Bruce Geller
Executive Vice President, Merchandising/Styling
Alan Rubin
Executive Vice President, Sales
Daniel Molter
Executive Vice President, Finance
Barry H. Minkin
Vice President, National Sales Manager
Howard W. Haftel
Vice President, Licensing

McGREGOR SPORTSWEAR

McGregor Sportswear was acquired in May 1979 and is now actively engaged in expanding its marketing position in major department and fine specialty stores throughout the country.

This famous label has a distinguished history of fashion leadership in outerwear, leathers, sportswear, sweaters and shirts, built and sustained over a period of 59 years. Against such a background, we look forward to great progress.

Our exciting 1980 fall line is geared to both the young man as well as the mature man, and we are confident that McGregor will re-emerge as a dominant figure in the sportswear industry.

Maurice A. Halperin—Chairman and Chief Executive Officer
Al Roth—President
Lawrence Glazer—Manufacturing Consultant
Daniel Molter—Executive V.P.—Finance
Barry F. Halperin—V.P.—Merchandise & Marketing
Howard Haftel—V.P.—Licensing
Alfred Carasso—International Director
Warren Tiedrich—Merchandising & Controls
Pasquale Caruso—Designer
Bernard Ginsberg—Production Coordinator
Hal Bombe—Distribution Manager
Tony Valesha—Production Manager

New management addressing attentive listeners at sales meeting . . .

Sales and manufacturing executives participating in a quarterly "think tank" discussion . . .

CROSS COUNTRY CLOTHES

Despite a general softening in the apparel industry, Cross Country Clothes had sales and earnings in 1979 comparable to its outstanding results in 1978.

These results were achieved by constant emphasis on cost control and asset management. Weekly staff meetings and Profit Improvement Programs were held throughout the year to monitor our progress, supplemented by quarterly "Think Tank" days attended by key management personnel from manufacturing, sales and finance. The weekly meetings and quarterly "Think Tank" days are examples of the team work that exists in all areas of our management.

Cross Country maintained its position as an important supplier to major retail chains. Our chain sales volume decreased slightly in 1979, reflecting the lower sales volume achieved by these chains last year.

This decline in chain volume was offset by the continued expansion of our *"Coat Tails"* line, sold to leading department and specialty stores throughout the country. *"Coat Tails"* offers the popular priced market a product encompassing quality, fashion and fabric selections comparable to those retailing at much higher prices. This exciting line of sportcoats and suits is now marketed to leading retailers in all areas of the country, the number of which increased from 600 retailers, one year ago, to almost 1,000 today.

Franklin A. Billera
President

Senior Vice Presidents

Harold Haas
Marketing/Sales

Frank Graham
Finance

Wassyl Liskanich
Manufacturing

BOTANY SHIRT

Fiscal 1979 marked the fourth consecutive year of growth and change for Botany Shirt Company.

Under the direction of a strong management team attuned to current market conditions, our Anvil Knitwear Division expanded its volume to meet the growing needs of the screen-printers who form the backbone of Anvil's business. At the same time, the Shirt Division continued to broaden its men's and boys' chain store business moving ever more aggressively in the direction of knits as its main product line.

During 1979, arrangements were made for the acquisitions of additional knitting equipment for the production of terrycloth, thermal cloth and interlock, over and above the existing jersey and rib capabilities.

To meet the need of expanding business we have opened a new sewing facility in McColl, South Carolina, and we expect to add additional sewing capacity at our Livingston, Tennessee facility to meet the demands of our screen-print trade.

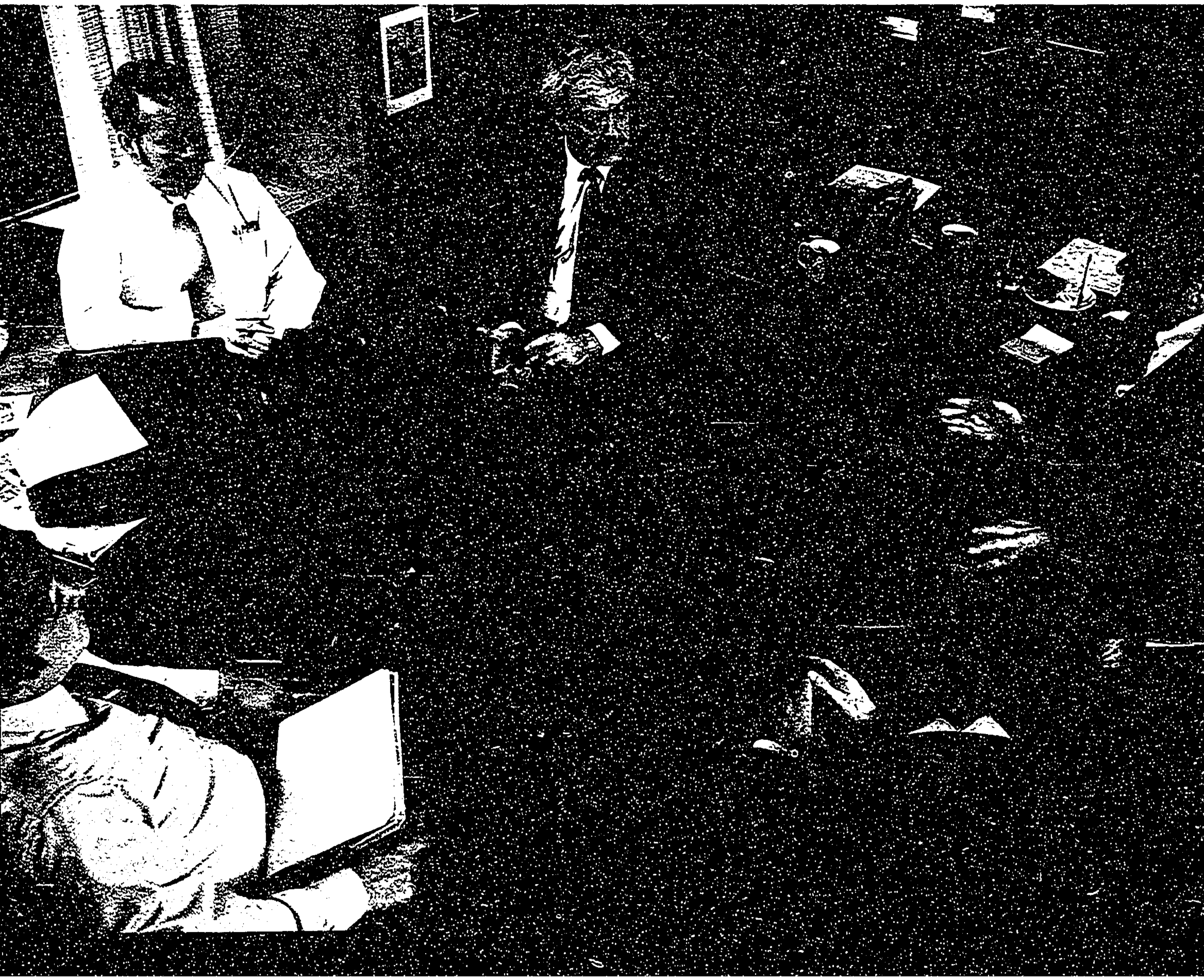
Bernard Geller
President

Ross Castagna
Executive Vice President

Greg Drummond
Vice President

Robert Stranyak
Controller

One of the many management meetings analyzing current fashion trends . . .



WONDERKNIT

Wonderknit is nationally recognized for its leadership in design and fashion creativity. Its knitted and casual sport shirts and sweaters for boys under the renowned *"Wonderknit"* label, are sold in the finest department and specialty stores throughout our country. In the 1980's Wonderknit expects to make substantial inroads into the European markets. Buyers representing important stores throughout Europe are already visiting our showrooms and ordering our merchandise.

A primary objective of Wonderknit's management is to create a solid operating base for further development. Active participation by key executives has been instrumental in successfully launching two new lines: *"New Era"*, which is an updated missy's top line of knit tops, woven blouses and sweaters and *"Ramrod"* a men's line featuring exceptional knit shirts, velour shirts, a variety of leisure wear, woven basic and western shirts and sweaters. Both lines are making strides with specialty and department stores throughout the United States and will help increase our business and profitability.

Management is also working closely with its manufacturing and warehousing facilities in Galax, Virginia, and Mocksville, North Carolina, to insure peak efficiency and the most expeditious service to our customers.

Wonderknit's management is a team of aggressive, dynamic professionals well qualified to provide the forceful approach to manufacturing and marketing needed for another decade of profitable growth.

Management in attendance at an important sportswear show . . .

Reuben M. Galston
President

Vice Presidents

Benjamin Shamper
Merchandising

Anthony Patti
Manufacturing

Daniel Mancini
Controller

GILEAD

Gilead has achieved a reputation for fine quality and excellent value in the intimate apparel industry. Our women's sleepwear, lingerie and loungewear under the famous *"Gilead"* label are sold by leading department stores and specialty shops in the United States.

Our management committee closely monitors volume and profits which have been steady and substantial particularly during the last five years. Thus, when it became apparent that 1979 would not be up to early expectations due to disturbing economic conditions our manufacturing and financial personnel worked as an active management team revising schedules and cutting costs to keep inventories under control.

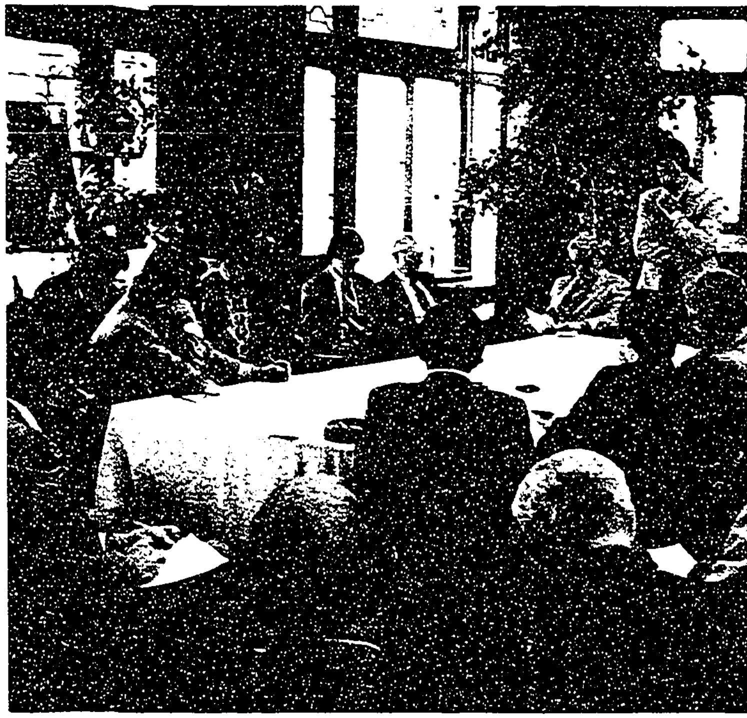
Until now, Gilead has manufactured products only under its own label; however, there is a substantial market for private label merchandise, which we shall service next year. We have already designed and presented lingerie and sleepwear to the national chains for sales during 1980 and the initial response is promising.

Our *"Gillies"* junior line of intimate apparel is becoming more active each season as more youthful-looking women buy slimline apparel.

Despite current instability in our nation's economy, we believe that our dedicated and creative staff and the quality and attractiveness of our products will enable us to continue to grow in 1980.

David I. Klein—President
Aaron Jaffe—Executive Vice President
Robert J. Levin—Vice President
John Riley—Controller

A demonstration of showroom selling techniques . . .



A round table discussion between sales and manufacturing executives . . .

BEAU BRUMMELL

Beau Brummell's creative management has continued to move in the direction of diversification and expanded lines.

In order to present the most up to date in fashion and quality, our executives make frequent buying trips to all the fashion markets in Europe as well as the Far East.

Beau Brummell's line of products is carried by more than 5,000 of the finest retailers throughout the country under the *"Beau Brummell"*, *"Saddle Club"*, *"Paco Rabanne"*, *"Gianni Versace"*, and *"Fashionaire"* labels.

Included in our comprehensive line of men's accessories are men's *"Isotoner"*, knit and leather gloves by *"Aris"*; *"Saddle Club"* mufflers and pocket handkerchiefs; *"Take 5 Luggage"*; sweaters and knit sportshirts by *"Saddle Club"*; and *"Paco Rabanne"* neckwear, mufflers and belts. In addition, Beau Brummell is now the licensed distributor of men's headwear under the *"Hush Puppies"* label.

Under the Beau Brummell banner is the Bert Pulitzer Division which sells all types of men's shirts and accessories. The *"Bert Pulitzer"* line is fashion oriented to the traditional and updated traditional concept and is carried exclusively by the finest stores throughout the country.

Ned H. Brower—President
Robert A. Brower—Executive V.P.
Vice Presidents
Ralph Del Gatto—Finance
Irvin Rubin—Charge of NY Office
Bernard Friedman—Sales
William D. Halker—Sales
Aaron C. Tumen—Sales
Fred Urban—Sales

BERT PULITZER DIVISION
Joseph Sweedler—President
Bert Pulitzer—Executive V.P. Merchandising
Adrian Emmerton—V.P. Administration

OPERATIONS REVIEW

Income from continuing operations in 1979 was $34.6 million or $4.02 per share fully diluted compared with $37.2 million or $3.92 per share fully diluted for 1978.

The contribution of each of the major business segments to consolidated net sales and operating profit (loss) from continuing operations for fiscal 1979 and the prior four years are shown below.

NET SALES 1975	1976	1977	1978	1979		OPERATING PROFIT (LOSS) 1979[a]	1978[a]	1977	1976	1975
(In Millions)						(In Millions)				
					Retail Merchandising					
$ 567	$ 582	$ 617	$ 695	**$ 705**	Lerner Stores	**$ 96.8**	$101.0	$ 74.2	$ 53.4	$ 59.9
509	495	520	544	**593**	McCrory Stores	**42.5**	34.9	27.9	22.3	8.4[b]
170	184	197	220	**256**	OTASCO	**19.2**	18.4	17.4	15.3	15.7
98	104	91	84	**71**	Britts and others	**(.5)**	3.2	(1.6)	(1.1)	(1.2)[b]
					Alcoholic Beverages					
783	821	772	730	**746**	Schenley	**42.0**	37.7	53.5	57.2	51.8
					Apparel					
155	160	176	181	**207**	Industrial Group	**5.7**	12.2	7.1	3.9	(11.7)
$2,282	$2,346	$2,373	$2,454	**$2,578**		**205.7**	207.4	178.5	151.0	122.9

	1979[a]	1978[a]	1977	1976	1975
Unallocated Costs					
Interest and debt expense	**122.6**	111.3	103.9	103.8	128.1
General corporate expenses	**24.9**	19.9	19.4	19.9	23.6
Other (income) earned at the corporate level	**(4.2)**	(3.0)	(2.1)	(9.6)	(3.2)
Equity in (income) loss of unconsolidated subsidiaries, etc.	**(.9)**	.8	.3	(1.4)	4.7
	142.4	129.0	121.5	112.7	153.2
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**$ 63.3**	$ 78.4	$ 57.0	$ 38.3	$(30.3)

[a] During 1978, the last-in, first-out ("LIFO") method of valuing substantially all inventories was adopted. The LIFO inventory amount at the end of 1979 and 1978 was less than the first-in, first-out inventory amount by $56.2 million and $25.4 million, respectively.

[b] After provision of $13.4 million for closed stores.

[c] Additional information concerning Rapid's business segments is presented in Note 22 to Financial Statements.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1980 — Commission file number 1-5448

Rapid-American Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-2588971 (I.R.S. Employer Identification No.)
888 Seventh Avenue, New York, N. Y. (Address of principal executive offices)	10019 (Zip Code)

Registrant's telephone number, including area code 212-399-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
Class B Senior Cumulative Convertible ($3) Preferred Stock, no par value $2.25 Cumulative Convertible Junior Preferred Stock, par value $2 per share. $3.00 Redeemable Preference Stock, no par value 7½% Sinking Fund Subordinated Debentures, due May 15, 1985 6% Sinking Fund Subordinated Debentures, due August 15, 1988 7% Subordinated Debentures (1969 Issue), due May 15, 1994 7% Subordinated Debentures (1972 Issue), due May 15, 1994 12% Sinking Fund Subordinated Debentures, due January 15, 1999 10¾% Sinking Fund Subordinated Debentures, due December 1, 2003 10¾% Sinking Fund Subordinated Debentures, due October 1, 2004 11% Sinking Fund Subordinated Debentures, due October 1, 2005	New York Stock Exchange, Inc.
Redeemable Common Stock Purchase Warrants, expiring May 15, 1994	American Stock Exchange, Inc. Pacific Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

$3.15 Cumulative Convertible Preferred Stock, no par value

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the close of the period covered by this report.

Class	Outstanding at January 31, 1980
Common Stock, par value $1 per share	5,098,171 shares

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Year Ended January 31, 1980	Year Ended January 31, 1979
	(In Thousands, Except Per Share Amounts)	
REVENUES:		
Net sales (Note 1)	$2,578,290	$2,454,024
Other—net (Note 16)	11,548	7,878
	2,589,838	2,461,902
COSTS AND EXPENSES:		
Cost of goods sold (Notes 1 and 3)	1,845,340	1,756,850
Selling, general and administrative expenses	528,720	486,773
Interest and debt expense (Note 16)	122,588	111,267
Depreciation and amortization (Note 1) (Schedule VI)	29,857	28,585
	2,526,505	2,383,475
INCOME BEFORE PROVISION FOR INCOME TAXES	63,333	78,427
PROVISION FOR INCOME TAXES (Note 10)	28,730	41,185
INCOME BEFORE EXTRAORDINARY CREDITS	34,603	37,242
EXTRAORDINARY CREDITS:		
Gains on debenture exchanges—net of tax (Note 12)	—	2,347
Utilization of loss carryforwards and tax credits (Note 10)	—	4,844
NET INCOME	34,603	44,433
CONSOLIDATED PREFERRED DIVIDEND REQUIREMENTS (Note 13)	3,616	1,809
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ 30,987	$ 42,624
INCOME PER SHARE OF COMMON STOCK (Note 13):		
Primary:		
Income before extraordinary credits	$4.55	$4.52
Extraordinary credits	—	.82
Net income	$4.55	$5.34
Fully Diluted:		
Income before extraordinary credits	$4.02	$3.92
Extraordinary credits	—	.66
Net income	$4.02	$4.58

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	January 31, 1980	January 31, 1979
	(In Thousands)	
Current Assets:		
Cash (Note 5)	$ 24,487	$ 36,639
Temporary investments, at cost which approximates market	34,330	49,575
Trade receivables, less allowances ($5,008,000 and $4,965,000) (Note 2) (Schedule XII)	210,358	203,375
Inventories (Notes 1 and 3)	619,488	616,215
Other receivables, prepaid expenses, etc.	40,909	38,747
Total current assets	929,572	944,551
Investments and Advances (Notes 1 and 2):		
Otasco Credit Corporation, at equity	15,582	15,304
Other investments, etc., substantially at equity	16,994	16,770
Total investments and advances	32,576	32,074
Property, Plant and Equipment (Note 1) (Schedules V and VI):		
Land	9,021	8,014
Buildings, store properties and warehouses	110,249	97,129
Furniture, fixtures and leasehold improvements	244,234	229,766
Machinery and equipment	89,248	79,757
Total—at cost	452,752	414,666
Less accumulated depreciation and amortization	224,861	218,661
	227,891	196,005
Capital leases, less accumulated amortization (Note 14)	66,528	74,126
Property, plant and equipment—net	294,419	270,131
Other Assets:		
Excess of cost of investments over related equities, less accumulated amortization ($27,309,000 and $23,130,000) (Notes 1 and 4) (Schedules VII and VIII)	252,534	253,058
Franchises, less accumulated amortization ($2,916,000 and $2,517,000) (Notes 1 and 4) (Schedules VII and VIII)	47,084	47,483
Trademarks (Schedules VII and VIII)	3,157	3,031
Deferred charges, mortgages and sundry	28,387	33,771
Total other assets	331,162	337,343
Total	$1,587,729	$1,584,099

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND EQUITY

	January 31, 1980	January 31, 1979
	(In Thousands)	
CURRENT LIABILITIES:		
Current maturities of long-term debt (Note 5)	$ 8,151	$ 21,412
Accounts payable	121,710	109,310
Accrued expenses and sundry (Note 18)	139,764	137,287
Accrued Federal and foreign income taxes (Note 10)	48,761	47,199
Capital lease obligations (Note 14)	9,530	10,756
Total current liabilities	327,916	325,964
LONG-TERM DEBT, LESS CURRENT MATURITIES AND UNAMORTIZED DISCOUNT (Note 5) (Schedule IX)	782,729	812,041
OTHER NON-CURRENT LIABILITIES:		
Capital lease obligations (Note 14)	85,420	97,332
Deferred income taxes (Note 10)	68,648	53,127
Reserves for store closings (Note 9)	23,369	26,656
Other	34,285	30,611
Total other non-current liabilities	211,722	207,726
MINORITY INTEREST IN SUBSIDIARIES (Note 1) (Schedule XIII)	16,028	15,961
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 15)		
$3.00 REDEEMABLE PREFERENCE STOCK (Aggregate Redemption Value, $66,795,000) (Notes 6 and 24)	53,476	—
PREFERRED AND COMMON STOCKHOLDERS' EQUITY (Notes 5, 6, 7, 8 and 24):		
Capital stock (Schedule XIII):		
Preferred stocks (aggregate liquidation preference, $8,764,000 and $21,075,000)	3,690	6,088
Common stock, $1 par value, authorized 50,000,000 shares, issued 5,098,171 shares and 7,155,094 shares, less treasury stock in 1979 of 81,081 shares	5,098	7,074
Additional paid-in capital	132,840	174,035
Retained earnings	54,230	35,210
Total preferred and common stockholders' equity	195,858	222,407
TOTAL	$1,587,729	$1,584,099

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED PREFERRED AND COMMON STOCKHOLDERS' EQUITY

	Preferred Stocks (Note 7)						
	$3.00 Issue	$3.15 Issue	$2.25 Issue	Common Stock (Note 8)	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
				(In Thousands)			
Balance, February 1, 1978	$5,956	$343	$529	$7,854	$184,135	$ (4,674)	$194,143
Net income						44,433	44,433
Cash dividends on:							
Preferred stocks						(889)	(889)
Common stock ($.40 per share)						(2,986)	(2,986)
Conversion of preferred stocks	(664)	(3)	(73)	160	580		
Common stock acquired in exchange for debentures and warrants				(931)	(11,399)		(12,330)
Common stock purchased in odd-lot tender				(10)	(71)		(81)
Warrants issued in settlement of litigation					750		750
Equity in certain transactions of subsidiaries				1	40	(674)	(633)
Balance, January 31, 1979	5,292	340	456	7,074	174,035	35,210	222,407
Net income						34,603	34,603
Cash dividends on:							
$3.00 redeemable preference stock (Note 6)						(2,004)	(2,004)
Preferred stocks						(656)	(656)
Common stock ($.60 per share)						(3,864)	(3,864)
Conversion of preferred stocks	(821)	(77)	(33)	112	819		
Common and preferred stocks acquired in exchange for $3.00 redeemable preference stock (Note 6)	(1,101)	(25)	(341)	(2,052)	(41,488)	(8,429)	(53,436)
Common stock purchased in odd-lot tender				(26)	(489)		(515)
Equity in certain transactions of subsidiaries					29	(590)	(561)
Other				(10)	(66)	(40)	(116)
Balance, January 31, 1980	$3,370	$238	$ 82	$5,098	$132,840	$ 54,230	$195,858

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31, 1980	1979
	(In Thousands)	
FUNDS PROVIDED:		
Operations:		
Income before extraordinary credits	$ 34,603	$ 37,242
Items not currently requiring funds:		
Depreciation and amortization (including debt discount and intangibles)	39,972	38,295
Deferred income taxes	8,212	10,022
Other—net	9,469	9,324
Funds provided by operations	92,256	94,883
Extraordinary credits:		
Gains on debenture exchanges	—	2,347
Related deferred taxes	—	1,719
Decrease in long-term debt	—	(4,066)
Utilization of loss carryforwards and tax credits	—	4,844
Increases in long-term debt	70,654	186,532
Issuance of $3.00 redeemable preference stock	53,436	—
Disposals of property, plant and equipment	6,085	4,933
Acquired working capital of McGregor-Doniger Inc.	3,729	—
Other—net	8,373	662
	234,533	291,854
FUNDS APPLIED:		
Decreases in long-term debt	111,334	107,285
Additions to property, plant and equipment	60,289	37,583
Acquisition of common stock and preferred stocks	53,951	12,411
Decrease in capital lease obligations	8,320	9,174
Decrease in non-current reserves relating to store closings	6,857	9,480
Additional consideration for acquisition of subsidiaries	—	6,090
Investment in McGregor-Doniger Inc.	4,189	—
Cash dividends	6,524	3,875
	251,464	185,898
INCREASE (DECREASE) IN WORKING CAPITAL	$(16,931)	$105,956
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENTS:		
Cash	$(12,152)	$(20,813)
Temporary investments	(15,245)	30,575
Trade receivables, less allowances	6,983	(12,446)
Inventories	3,273	15,351
Other receivables, prepaid expenses, etc.	2,162	6,579
Short-term debt	—	110,000
Current maturities of long-term debt	13,261	(2,826)
Accounts payable	(12,400)	(9,324)
Accrued expenses and sundry	(2,477)	(2,276)
Accrued Federal and foreign income taxes	(1,562)	(8,108)
Capital lease obligations	1,226	(756)
INCREASE (DECREASE) IN WORKING CAPITAL	$(16,931)	$105,956

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include (i) Rapid and its divisions, Territory Financial, Leeds Travelwear (phased out during the year ended January 31, 1980) and Rapid Electrotype; (ii) McCrory Corporation and its divisions and subsidiaries, including Lerner Stores Corporation and subsidiaries, Otasco, Inc. and subsidiaries, J. J. Newberry Co. and subsidiaries and all other subsidiaries, exclusive of Otasco Credit Corporation, a nonsignificant financing subsidiary (see Note 2), which is carried at equity; (iii) Schenley Industries, Inc. and its subsidiaries; (iv) McGregor-Doniger Inc. and its divisions; (v) Anvil Brand, Incorporated and its divisions and subsidiaries; (vi) Rapid-American Menswear, Inc. and its divisions; and (vii) certain other subsidiaries whose assets and operations in the aggregate are not significant.

To facilitate comparisons with the current year, certain amounts in the prior year have been reclassified.

Minority interest in consolidated subsidiaries in both years consisted of preferred and preference stocks of subsidiaries not held by Rapid and its subsidiaries.

Inventories

During the year ended January 31, 1979, the last-in, first-out ("LIFO") method of valuing substantially all inventories was adopted. This change was made because management believes the LIFO method more clearly reflects the results of operations by matching current costs with current revenues. The LIFO inventory amount at January 31, 1980 and 1979 was less than the first-in, first-out inventory amount by $56,200,000 and $25,400,000, respectively.

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $266,045,000 and $284,292,000, respectively, for the years ended January 31, 1980 and 1979.

Property, Plant and Equipment

It is the policy of Rapid and its subsidiaries to provide for depreciation of depreciable properties at rates designed to extinguish the cost thereof over the estimated service lives of the properties. The approximate annual rates of depreciation and amortization, which have been computed generally on the straight-line method, are as follows:

	Rates of Depreciation and Amortization
Buildings, etc.	2 to 20%
Furniture, fixtures and automobiles	2½ to 33⅓%
Machinery and equipment	4 to 33⅓%
Leased property and equipment under capital leases	Term of lease.
Leasehold improvements	Term of lease or estimated service life of improvement, whichever is less.

Expenditures for maintenance and repairs are charged to income or costs of production as incurred. Expenditures for renewals which extend the estimated service lives of the properties, and the cost of betterments of such properties, are charged to the appropriate fixed asset accounts.

At the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

EXCESS OF COST OF INVESTMENTS OVER RELATED EQUITIES AND FRANCHISES

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $113,167,000 and $113,508,000 at January 31, 1980 and 1979, respectively, has been recognized as being similar in nature to intangibles which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Note 4). Franchises which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits, have continuing value and accordingly are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $139,367,000 (after accumulated amortization of $27,309,000) at January 31, 1980 and $139,550,000 (after accumulated amortization of $23,130,000) at January 31, 1979 and the portion of franchises, amounting to $13,029,000 (after accumulated amortization of $2,916,000) at January 31, 1980 and $13,428,000 (after accumulated amortization of $2,517,000) at January 31, 1979, acquired subsequent to October 31, 1970 are being amortized on the straight-line method over forty years (see Note 4). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

EXCESS OF NET ASSETS ACQUIRED OVER RELATED COSTS

The excess of net assets acquired over related costs, amounting to $4,739,000 and $6,972,000 at January 31, 1980 and 1979, respectively, (after accumulated amortization and other adjustments of $20,034,000 and $17,801,000, respectively) in the acquisition of J. J. Newberry Co. in 1972, was attributed to property accounts, is included in accumulated depreciation and amortization, and is being amortized (as a reduction of depreciation) over a ten year period, the estimated useful life of the property.

2. INVESTMENTS AND ADVANCES

Otasco Credit Corporation—Otasco, Inc. has a financing agreement with Otasco Credit Corporation under which it sells certain customers' accounts receivable. Otasco, Inc. receives 90% of the amount of accounts sold and repurchases accounts in default, as defined. Otasco, Inc.'s 10% equity in accounts receivable sold is included in trade receivables in the consolidated balance sheets.

The condensed balance sheets of Otasco Credit Corporation at January 31, 1980 and 1979 are as follows:

	January 31, 1980	January 31, 1979
	(In Thousands)	
Assets:		
Customers' accounts receivable purchased, net of 10% withheld pending collection ($6,063,000 and $5,360,000)	$54,564	$48,243
Cash	6,721	5,776
Total assets	61,285	54,019
Liabilities:		
Notes payable to banks	44,750	38,500
Accrued interest and sundry	716	79
Due to affiliated companies	237	136
Total liabilities	45,703	38,715
Rapid's carrying value (including $14,000,000 of subordinated notes payable to McCrory and to McCrory and its subsidiary, respectively)	$15,582	$15,304

Net income of Otasco Credit Corporation was $278,000 and $148,000, respectively, for the years ended January 31, 1980 and 1979; and is included in consolidated net income.

Otasco Credit Corporation has an agreement with a regional bank group for a revolving credit line in the aggregate principal amount of $50,000,000 secured by substantially all of Otasco, Inc.'s trade accounts receivable. The agreement expires on December 31, 1981. Otasco Credit Corporation and the lenders are presently discussing a proposed increase in the revolving credit line to $60,000,000. The agreement provides, among other things, for an interest rate of ½ of 1% above prime and maintenance of compensating balances equal to 15% of the borrowings. At January 31, 1980 and 1979 the interest rates were 15.75% and 12.5%, respectively. The average amount of notes payable to banks outstanding during the years ended January 31, 1980 and 1979 were approximately $44,200,000 and $30,900,000, respectively, and the weighted average interest rates were approximately 13.6% and 9.9%, respectively.

ILC Industries, Inc.—At January 31, 1980 and 1979, Rapid owned 555,054 shares (74%) of ILC common stock. Rapid's investment in ILC, including loans and advances and equity in undistributed earnings, aggregated approximately $8,200,000 and $6,300,000 at January 31, 1980 and 1979, respectively. Under ILC's bank agreement, repayment of advances made by Rapid on an open account basis is subordinated to ILC's bank debt. Rapid has also agreed not to dispose of any of its capital stock of ILC without the prior written consent of ILC's bank lenders. ILC reported net income of $2,124,000 and $1,050,000 for the years ended December 31, 1979 and 1978, respectively.

Separate financial statements have not been presented for any non-consolidated subsidiary since, considered in the aggregate as a single subsidiary, they do not constitute a "significant subsidiary".

3. INVENTORIES

Inventories at the lower of cost or market consisted of the following:

	January 31, 1980	1979
	(In Thousands)	
At LIFO cost—whiskey, other spirits and wine:		
In bond	$210,397	$212,767
Tax paid	33,776	39,695
At cost—whiskey, other spirits and wine in bond	54,384	54,971
Principally LIFO:		
Merchandise at stores and warehouses	228,233	231,753
Raw materials and supplies	14,909	8,188
Principally first-in, first-out and average cost:		
Merchandise at plants and warehouses	39,411	29,079
Work in process	9,717	11,249
Raw materials and supplies	25,452	23,351
Retail method—merchandise at stores and warehouses	918	1,115
At identified cost—merchandise in transit, at warehouses and restaurants	2,291	4,047
Total	$619,488	$616,215

The excess of replacement cost over stated LIFO values amounted to approximately $139,000,000 and $91,000,000 at January 31, 1980 and 1979, respectively.

Inventories used in computing cost of goods sold were as follows:

	(In Thousands)
February 1, 1978	$585,025
January 31, 1979	608,493
January 31, 1980	610,100

4. INTANGIBLES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1980	1979
	(In Thousands)	
Schenley, etc.	$174,614	$174,614
Lerner	65,526	65,526
McCrory	19,488	19,360
McGregor-Doniger and its divisions	17,690	14,592
Other	2,525	2,096
Total*	279,843	276,188
Less accumulated amortization	27,309	23,130
Net	$252,534	$253,058

* Includes $166,676,000 and $162,680,000, at January 31, 1980 and 1979, respectively, which is being amortized over forty years (see Note 1).

Franchises which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits amounted to $47,084,000 and $47,483,000 at January 31, 1980 and 1979, respectively, after accumulated amortization of $2,916,000 and $2,517,000, respectively.

Rapid's equity in the net income of Schenley was $13,044,000 and $11,567,000, respectively, for the years ended January 31, 1980 and 1979. The net assets of Schenley at such dates were $341,917,000 and $335,623,000, respectively. Rapid carries its investments in subsidiaries, including Schenley, at equity, plus, when applicable, the excess of the aggregate cost over the equity in underlying net assets acquired at dates of acquisition, including the portion allocated to franchises.

5. INDEBTEDNESS

Short-Term

There was no short-term debt outstanding at January 31, 1980 and 1979. The maximum amount of short-term bank debt outstanding at any month-end during the years ended January 31, 1980 and 1979 was $75,000,000 and $167,000,000, respectively. The average amount of short-term bank debt outstanding was approximately $37,000,000 and $128,000,000, respectively, during the years ended January 31, 1980 and 1979 (calculated as the average of the month end borrowings outstanding) and the weighted average interest rates on such debt were approximately 15.2% and 10.4%, respectively, (calculated by dividing the interest expense by the average short-term bank borrowings outstanding). Lines of credit available for short-term bank borrowings aggregated approximately $140,000,000 at January 31, 1980 (see *Rapid and McCrory Agreements* and *Schenley Agreements*).

Schenley and McCrory, under compensating balance arrangements, are generally expected to maintain cash balances of up to 8% of the lines of credit and of up to 10% of the loans outstanding under these lines. Such requirements were generally satisfied by maintenance of the required balances.

The average monthly cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries were approximately $25,000,000 and $43,000,000, respectively, during the years ended January 31, 1980 and 1979. The aforementioned balances were subject to withdrawal at any time.

Long-Term

Consolidated long-term debt at January 31, 1980 and 1979 was as follows:

	January 31,		Interest Rates at January 31, 1980	
	1980	1979	Stated Percent	Effective Percent
	(In Thousands)			
Notes payable to banks	$123,050	$172,983	15.8-16.5	15.8-16.5
Notes payable to insurance companies	110,400	115,000	10	10
Subordinated indebtedness	654,603	657,193	5-12	5-14
Notes and mortgages payable	17,003	7,824	2-16.5	2-16.5
Total	905,056	953,000		
Less:				
Current maturities	(8,151)	(21,412)		
Unamortized discount	(114,176)	(119,547)		
Total	$782,729	$812,041		

Aggregate principal amount of long-term debt at January 31, 1980 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1981	$ 8,151	1985	$205,466
1982	33,150	1990	227,054
1983	91,843	1995	289,178
1984	48,681	2000	85,527
1985	23,641	2005	91,626
		2010	6,205
Total	$205,466	Total	$905,056

At January 31, 1980, notes and mortgages payable aggregating approximately $16,600,000 were secured by land, buildings and equipment having an approximate carrying value of $19,800,000.

Rapid and McCrory Agreements

At January 31, 1979, Rapid's long-term indebtedness to eleven banks and the Federal Deposit Insurance Corporation (the "Banks") was $79,483,000, payable over the five years ending December 31, 1983 and McCrory's long-term indebtedness to certain of the Banks was $35,000,000, payable over the three years ending January 31, 1984.

On May 7, 1979, Rapid prepaid its then indebtedness to the Banks of $78,047,000 utilizing funds received from McCrory, and McCrory prepaid its indebtedness of $35,000,000 and terminated a revolving credit agreement.

Concurrent with the foregoing, McCrory entered into a credit agreement ("McCrory Credit Agreement") with ten banks providing for a three year revolving credit of up to $75,000,000 (at January 31, 1980, no borrowings were outstanding) and term indebtedness of $75,000,000 ($60,000,000 outstanding at January 31, 1980), payable in annual installments commencing December 31, 1979 through December 31, 1983, in the following amounts: $5,000,000 (paid in December 1979), $10,000,000 (prepaid in December 1979 and reborrowed in February and March 1980), $15,000,000, $20,000,000 and $25,000,000, respectively. Interest is payable on the revolving credit line at the rate of the greater of the prime rate or ½ of 1% above the commercial paper rate (as defined), and on the term indebtedness at the rate of the greater of ½ of 1% over the prime rate or 1% above the commercial paper rate. The McCrory Credit Agreement requires McCrory to pay annual balance deficiency fees to the extent that 7½% of the average unpaid principal amount of the notes and 7½% of the commitments exceed McCrory's average collected demand deposit balances with the lending banks. The balance deficiency fee for the revolving credit line is calculated on the basis of the prime rate and for the term indebtedness is calculated on the basis of ½ of 1% over the prime rate.

The McCrory Credit Agreement requires McCrory to maintain minimum levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated net current assets, and (iii) ratios of consolidated current assets to current liabilities (as each term is defined). In addition, Lerner is required to maintain a minimum level of consolidated tangible net worth. The McCrory Credit Agreement and other agreements covering certain indebtedness contain other material restrictions on McCrory and its subsidiaries, including restrictions on indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments, and the right to engage in business combinations. Subject to certain limitations, McCrory may pay cash dividends on its common stock in an amount not exceeding 50% of its net income (as defined), and may pay cash dividends on its preferred and preference stocks in accordance with the stated dividend rates.

Rapid guarantees McCrory's obligations under the McCrory Credit Agreement, which guarantee is collateralized by Rapid's pledge of the outstanding capital stock of its principal operating subsidiaries, and McCrory pledged the capital stock of Lerner to secure its obligations.

Schenley Agreements

On December 18, 1978, Schenley entered into a loan agreement with a group of insurance companies ("Schenley Loan Agreement"), pursuant to which Schenley borrowed $115,000,000 evidenced by 10% promissory notes due to December 1, 1991. Of this amount, $71,500,000 was applied to the prepayment of the balance of 6½% promissory notes due March 1, 1979. The balance of $43,500,000 was used to pay indebtedness to banks due under a revolving credit agreement dated December 20, 1977, as extended, and the commitment of the banks to lend monies thereunder was correspondingly reduced from $188,500,000 to $145,000,000. At January 31, 1979, the balance outstanding under the revolving credit agreement was $58,500,000. On February 14, 1979, Schenley entered into a new revolving credit agreement with the same group of banks ("Schenley Revolving Credit Agreement"), which had been parties to the 1977 agreement. The Schenley Revolving Credit Agreement provides that Schenley may until February 28, 1982 borrow up to an aggregate amount of $80,000,000. At January 31, 1980, the balance outstanding under the Schenley Loan Agreement was $110,400,000 and under the Schenley Revolving Credit Agreement was $56,800,000. In addition, Schenley has confirmed short-term lines of credit which permit it to borrow $65,000,000.

The Schenley Loan Agreement provides, among other things, for required annual payments which commenced December 1, 1979 of specified principal amounts, without premium. Prepayments are permitted without penalty each year up to the amount of the mandatory payment for that year provided that the aggregate principal amounts so prepaid may not exceed $28,750,000. Additional prepayments may be made, in certain circumstances, with a penalty of 10% in the first year, decreasing in equal amounts until the last year, during which there is no penalty.

The Schenley Revolving Credit Agreement provides, among other things, that borrowings thereunder are to bear interest at the rate of 108% of prime rate, for a commitment fee at the rate of ½ of 1% per annum on the average unused portion of a bank's commitment and that if balances equal to 8% of the average daily commitment are not maintained, a deficiency fee will be incurred. Under Schenley's confirmed short-term lines of credit, Schenley is required to maintain balances equal to 10% of borrowings.

The Schenley Loan Agreement and the Schenley Revolving Credit Agreement also contain certain limitations relating to Schenley's financial position, its indebtedness, dividends and liens, and investments in companies which are not wholly-owned subsidiaries. Commitments to make lease payments are restricted and transactions with affiliates, including Rapid, are significantly restricted. Schenley may pay cash dividends on its common stock in an amount up to 50% of its net income.

McGregor-Doniger Term Loan Agreement

The McGregor-Doniger term loan agreement ($6,250,000 outstanding at January 31, 1980) provides for quarterly payments of $250,000, interest of 5% per annum until May 15, 1982 and thereafter at the prime rate. Rapid guarantees the obligations of McGregor-Doniger under this agreement.

Accounts Receivable Financing Agreements

During 1975, Lerner entered into an agreement which currently expires in August 1980 with Citicorp Custom Credit, Inc. ("Custom"), pursuant to which Custom purchases and services Lerner's accounts receivable. The agreement imposes certain financial restrictions on Lerner, and upon termination of the agreement Lerner is obligated to repurchase all then "eligible" outstanding accounts receivable at their face amounts. Lerner and Custom have entered into a letter of intent to renew the agreement for five years. Under the renewal agreement the financial restrictions and repurchase obligation would be eliminated.

Rapid, at January 31, 1980, also has accounts receivable financing agreements under which it may borrow up to a maximum of $28,000,000.

6. $3.00 REDEEMABLE PREFERENCE STOCK

In accordance with the terms of an exchange offer to common and preferred stockholders, which expired November 30, 1979, Rapid issued 2,671,790 shares of a new $3.00 redeemable preference stock in exchange for 2,051,868 shares of common stock and shares of convertible preferred stocks convertible into 619,922 shares of common stock (see Note 7). On or before January 31st of each year from 1990 and each year thereafter until all shares of the $3.00 redeemable preference stock have been redeemed, Rapid is required to redeem for $25 per share, plus accrued dividends, 5% of the number of shares initially issued.

The difference between the stated value of the $3.00 redeemable preference stock at issuance ($20 per share) and the $25 per share redemption price is being amortized over the redemption period. Such amortization ($40,000 for the three months ended January 31, 1980) is included in the consolidated preferred dividend requirement.

7. CONVERTIBLE PREFERRED STOCKS

Convertible preferred stocks of Rapid are as follows:

	$3 Preferred(a)	$3.15 Preferred(a)	$2.25 Junior Preferred ($2 Par Value)
Number of shares:			
Authorized	2,172,995	1,300,000	397,777
Outstanding:			
January 31, 1980	61,989	3,897	41,015
January 31, 1979	97,355	5,553	228,225
Aggregate par or stated value at January 31, 1980	$3,370,000	$238,000	$82,000
Aggregate liquidation preference at January 31, 1980(b)	$6,509,000	$409,000	$1,846,000
Liquidation value per share	$105	$105	$45
Redemption amount per share	$105	$105	$47¼
Common stock conversion rate per share(c)	3.572 for 1	3.877 for 1	3.2 for 1
Shares of common stock reserved for conversion of preferred stock outstanding	221,424	15,108	131,248

(a) Without par value.

(b) The excess ($5,074,000) of aggregate liquidation preference over par or stated value imposes no restriction upon the payment of cash dividends.

(c) The conversion rates of the preferred stocks are subject to anti-dilution adjustments under certain circumstances.

During the years ended January 31, 1980 and 1979, conversions of preferred stocks were as follows:

	Year Ended January 31, 1980	1979
Shares of preferred stock converted:		
$3 Preferred	15,118	12,220
$3.15 Preferred	1,252	55
$2.25 Junior Preferred	16,511	36,309
Shares of common stock issued	111,642	160,029

During the year ended January 31, 1980, 20,248 shares of $3 preferred stock, 404 shares of $3.15 preferred stock and 170,699 shares of $2.25 junior preferred stock were tendered in exchange for 619,922 shares of $3.00 redeemable preference stock (see Note 6).

8. COMMON STOCK, WARRANTS AND OPTIONS

Common Stock

At January 31, 1980 and 1979, Kenton Corporation ("Kenton") owned 1,680,407 shares (approximately 33% and 24%, respectively) of the outstanding shares of Rapid common stock, acquired from Meshulam Riklis, Isidore A. Becker and unaffiliated private investors. In its filings with the Securities and Exchange Commission, Kenton stated that its purpose in acquiring such shares of Rapid common stock was to obtain control of the management and business of Rapid. Certain of Rapid's officers, directors and employees are also officers and directors of Kenton. More than 40% of the outstanding shares of Kenton

common stock is owned by (i) a trust for the benefit of Mr. Riklis' children and grandchildren, (ii) Mr. Riklis' children, their spouses and the other trustees and (iii) directors and officers of Rapid and certain of their children.

In December 1978, Rapid issued $15,510,000 principal amount of its 11% sinking fund subordinated debentures due 2005 and 465,288 warrants in exchange for 930,576 shares of its common stock.

At January 31, 1980, an aggregate of 353,926 shares of Rapid common stock were reserved for (i) conversion of McCrory preference stock (8,245 shares), (ii) conversion of McCrory debentures (48,271 shares) and (iii) issuance upon exercise of McCrory warrants outstanding (297,410 shares).

Warrants

Warrants were outstanding at January 31, 1980 and 1979, entitling their holders to purchase 5,431,171 shares (including 1,000,000 warrants issued in May 1979 in settlement of certain litigation, recognized in the financial statements at January 31, 1979) of Rapid's common stock at an exercise price of $35 per share with terms subject to adjustments under certain circumstances and redeemable at Rapid's option at $20 per warrant, expiring May 15, 1994.

Option Plans

During the year ended January 31, 1979, no options were granted or exercised and all outstanding options (to purchase 380,100 shares at prices ranging from $14 per share to $25 per share) were cancelled.

9. RESERVES FOR CLOSED FACILITIES

S. Klein Department Stores, Inc.—In March 1975 (reflected in the financial statements as of January 31, 1975), management of McCrory decided to phase out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. While it was not then possible to determine the ultimate loss to be incurred in connection with such phase-out, a provision of $58,300,000 for the estimated losses to be incurred in phasing out the S. Klein operations, less related deferred Federal income tax benefit of $26,800,000, was established based upon various assumptions which management then believed were realistic. In December 1975 and January 1978, management of McCrory determined that additional provisions of $16,400,000 and $14,500,000, respectively, less related deferred Federal income tax benefits of $7,900,000 and $7,000,000, respectively, were necessary based upon losses incurred and revised estimates of additional future losses to be incurred (including the transactions with Korvettes, Inc. described below). Such estimated losses and charges consist of the following:

	Provisions			January 31, 1980	
	Year Ended January 31,				
	1978	1976	1975	Accumulated Charges	Balance*
			(In Thousands)		
Write-down of assets to net realizable value	$ —	$ 1,755	$24,126	$25,881	$ —
Present value of future lease commitments and real estate taxes, net of estimated recoveries	9,936	6,320	24,110	26,728	13,638
Estimated losses during phase-out period and other related costs	4,564	8,325	10,064	17,810	5,143
	14,500	16,400	58,300	$70,419	$18,781
Less Federal income tax benefit	7,000	7,900	26,800		
Estimated losses	7,500	8,500	31,500		
Less minority interest	—	3,191	11,818		
Rapid's equity therein	$ 7,500	$ 5,309	$19,682		

* The balance at January 31, 1980 consists of $3,341,000 (current) and $15,440,000 (long-term).

The program of phasing out the S. Klein stores resulted in all nineteen stores being closed by the end of August 1975. Management of McCrory has assigned the leases or sublet eleven of the stores, which included the assignment of five stores to Korvettes, has sublet major portions of four other stores and is attempting to make further dispositions. McCrory has not been released by its landlords from any of its obligations under 17 of the foregoing leases. Additional adjustments may be required based upon the

results of efforts to make further dispositions of leased premises (see Note 14). It is the opinion of management of Rapid that the ultimate resolution of the S. Klein phase-out will not have a material effect upon Rapid's consolidated financial position.

As of October 1, 1975, McCrory assigned its rights as tenant under leases for five S. Klein store locations to Korvettes, a then wholly-owned subsidiary of Arlen Realty & Development Corp. As part of the transaction, McCrory sold to Korvettes all of the leasehold improvements and certain trade fixtures located in such stores for $3,916,000 in notes, payable in monthly installments over 18 years. At January 31, 1980, the notes aggregated $2,918,000 of which $2,662,000 is included in "other assets" in the consolidated balance sheet. Korvettes has assumed McCrory's obligations under such leases, including the obligation to pay substantially all of the rent, real estate taxes and other charges. The aggregate minimum annual rental payments under such leases range from approximately $2,000,000 in the year ending January 31, 1981 to approximately $800,000 in the year ending January 31, 2000, and aggregate approximately $25,000,000 for the period commencing February 1, 1980 and ending upon expiration of the initial terms of such leases. Real estate taxes and other charges payable under such leases aggregated approximately $1,200,000 in the year the assignments were made. Korvettes has the right to renew three of such leases, if its net worth is at least $80,000,000 at the times of renewal; such renewal terms would commence in 1985 and end in 2023, at minimum annual rentals aggregating approximately $26,200,000 over the renewal period. In March 1979, Arlen Realty & Development Corp. sold its interest in Korvettes to the Agache-Willot Group.

Other Store Closing Reserves—At January 31, 1980, McCrory had reserves for the termination of certain variety store and Britts department store operations aggregating approximately $9,900,000, of which approximately $2,000,000 was current.

10. INCOME TAXES

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid, Glen Alden and McCrory have been substantially completed for the periods ended January 31, 1974. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amount accrued in the consolidated balance sheet, in the opinion of management, is adequate to cover amounts which may ultimately be payable.

For the year ended January 31, 1977, Rapid incurred a net operating loss on a tax return basis of approximately $17,000,000 which Rapid elected to carryforward. Rapid utilized such carryforward in the year ended January 31, 1979, and, accordingly, the benefit of such carryforward, net of applicable deferred taxes, together with an investment tax credit carryforward have been reported as an extraordinary credit.

The provisions for income taxes included in the statements of consolidated income consisted of the following:

	Year Ended January 31,	
	1980	1979
	(In Thousands)	
Continuing operations:		
Federal:		
Currently payable	$ 12,291	$16,085
Charge equivalent to tax effect of loss carryforwards and credits	—	4,844
Deferred	6,865	8,833
Foreign:		
Currently payable	2,127	2,204
Deferred	28	(566)
State	7,419	9,785
	28,730	41,185
Discontinued operations—Federal:		
Currently payable	(1,319)	(1,755)
Deferred	1,319	1,755
	—	—
Total	$28,730	$41,185

Available investment tax credits of approximately $4,900,000 and $2,500,000, respectively, for the years ended January 31, 1980 and 1979 were applied as reductions of Federal income tax provisions.

Deferred income taxes relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences attributable to continuing operations and the tax effect of each were as follows:

	Year Ended January 31,	
	1980	1979
	(In Thousands)	
Excess of tax over book depreciation	$2,877	$1,545
Deferred gross prpfit on installment sales	1,138	1,356
Net reduction in reserves for store closings	918	2,217
Other	1,960	3,149
Total	$6,893	$8,267

Deferred income taxes relating to discontinued operations result from charges to the reserve for phasing out the S. Klein operations.

The provision for income taxes before extraordinary credits for the years ended January 31, 1980 and 1979 amounted to $28,730,000 and $41,185,000, respectively, representing effective income tax rates of 45.4% and 52.5%, respectively. These amounts are different than the amounts of $29,133,000 and $37,512,000, respectively, computed by applying the statutory Federal income tax rate to income attributable to continuing operations before provision for income taxes. The reasons for the variances from the statutory rate are as follows:

	Year Ended January 31,	
	1980	1979
	(Percent of Pre-tax Income)	
Computed statutory rate applicable to the period	46.0%	47.8%
Increase (decrease) in income tax rate resulting from:		
Investment tax credit	(7.7)	(3.1)
State tax provision (net of Federal income tax benefit)	6.3	6.5
Amortization of excess of cost of investments over related equities and other intangibles	3.7	2.7
Foreign income	(2.0)	(6)
Amortization of excess of equity over cost of related investment	(1.8)	(1.2)
Other	.9	.4
Effective income tax rate	45.4%	52.5%

The cumulative amount of undistributed earnings of subsidiaries on which Rapid or its subsidiaries may be required to recognize income taxes upon distribution amounted to approximately $67,300,000 at January 31, 1980. No provision has been made for taxes that would be payable upon distribution, since such earnings have been indefinitely reinvested.

11. PENSION PLANS

Rapid and its subsidiaries have various contributory and non-contributory pension plans covering eligible employees. The provision for pension costs relating to continuing operations under the plans was $10,063,000 and $11,165,000 for the years ended January 31, 1980 and 1979, respectively. It is the general policy to fund accrued pension cost as required. As of January 31, 1980, the actuarially computed value of

vested benefits under certain of the plans exceeded the total of the related pension funds and balance sheet accruals by approximately $23,000,000. Unfunded prior service cost amounted to approximately $39,000,000 at January 31, 1980, substantially all of which is being funded over various periods not exceeding thirty years.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1980 and 1979, $1,669,000 and $1,751,000, respectively, were provided for such allowances.

12. GAINS ON DEBENTURE EXCHANGES

During 1978, Rapid issued $17,926,000 principal amount of 12% sinking fund subordinated debentures due 1999 in exchange for $21,728,000 principal amount of its 7½% sinking fund subordinated debentures due 1985. Rapid recorded an extraordinary gain of $1,105,000 on the exchange representing the difference between the carrying value of the debentures exchanged (the principal amount tendered reduced by applicable unamortized debt discount) and the present value of the debentures issued, reduced by applicable deferred income taxes of $1,107,000.

During 1978, Rapid also issued $5,870,000 principal amount of 10¾% sinking fund subordinated debentures due 2004 in exchange for $7,827,000 principal amount of its 6% sinking fund subordinated debentures due 1988. Rapid recorded an extraordinary gain of $1,242,000 on the exchange representing the difference between the carrying value of the debentures exchanged (the principal amount tendered reduced by applicable unamortized debt discount) and the present value of the debentures issued, reduced by applicable deferred income taxes of $612,000.

The provision for income taxes relating to the extraordinary items are less than the statutory tax rate as a result of the non-taxability of the portion of the gain which will be allocated to Rapid's basis of its investment in Schenley as allowed under provisions of the Internal Revenue Code.

13. INCOME PER SHARE OF COMMON STOCK

Primary income per share for the years ended January 31, 1980 and 1979 are after deducting Rapid's preferred dividend requirements (including preferred dividend requirements of its consolidated subsidiaries of $915,000 and $920,000) and are based upon the weighted average number of common shares outstanding during each year and common stock equivalents arising from the assumed exercise of stock options and warrants and utilization of a portion of the proceeds to acquire 20% of the outstanding shares of common stock and the balance of the proceeds to reduce outstanding debt (resulting in assumed reduction in interest expense net of income tax).

Fully diluted income per share amounts for the years ended January 31, 1980 and 1979 are based on the weighted average number of common shares outstanding increased by the number of common shares which would be issued assuming all dilutive convertible securities had been converted into common stock with appropriate adjustments having been made for related dividends and interest expense and dilution from stock options and warrants.

Since earnings per share presented for the quarters (see Note 19) assume the exercise of stock options and warrants when the result for that quarter is dilutive, the total of the quarterly per share amounts do not agree to the full year totals.

14. LEASE COMMITMENTS

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the initial leases generally range from 10 to 40 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rental based upon percentages of sales, real estate taxes, insurance and maintenance costs.

Property and equipment under capital leases is as follows:

	January 31, 1980	January 31, 1979
	(In Millions)	
Buildings and store properties	$158.4	$169.8
Machinery and equipment	34.0	38.7
Less—accumulated amortization	(125.9)	(134.4)
Net	$ 66.5	$ 74.1

Amortization of property under capital leases is computed on a straight-line method and is included in depreciation and amortization expense.

The minimum rental commitments on leases of continuing operations in effect at January 31, 1980 are as follows:

Years Ending January 31,	Capital Leases	Operating Leases
	(In Millions)	
1981	$ 16.3	$ 54.2
1982	15.0	51.9
1983	13.5	49.2
1984	12.2	45.2
1985	10.9	41.9
Thereafter	91.1	312.6
Total minimum payments required*	159.0	$555.0
Less:		
Amount representing interest	(58.2)	
Amount representing estimated executory costs included in minimum lease payments	(5.9)	
Present value of net minimum lease payments	94.9	
Less current portion	(9.5)	
Long-term obligation	$ 85.4	

* Minimum payments have not been reduced by minimum sublease rentals of $9.0 million under capital leases and $40.7 million under operating leases due in the future under noncancellable subleases. Contingent rentals which may be paid under certain leases have not been included.

Rental expense relating to all operating leases of continuing operations is as follows:

	Year Ended January 31, 1980	Year Ended January 31, 1979
	(In Millions)	
Minimum rentals	$58.0	$52.3
Contingent rentals and expenses	23.2	22.7
Less—sublease rentals	(7.2)	(6.2)
Net	$74.0	$68.8

Contingent rentals applicable to capital leases amounted to $3.0 million and $2.7 million, respectively, in the years ended January 31, 1980 and 1979.

The minimum rental and real estate tax commitments of S. Klein at January 31, 1980, net of noncancellable subleases, and excluding the leases assigned to Korvettes (see Note 9) are as follows:

Years Ending January 31,	(In Millions)
1981	$ 1.6
1982	1.6
1983	1.6
1984	1.8
1985	1.9
1986-1990	6.4
1991-1995	3.9
1996-2000	4.0
Thereafter	6.8
	29.6
Less—amount representing interest	(17.7)
Present value of commitments	$11.9

15. LITIGATION, COMMITMENTS AND CONTINGENCIES

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of securities laws, anti-trust laws, or corporation laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers and others in which substantial damages are and may be requested. Rapid and its subsidiaries are unable to predict the possible range of damages in those actions where an amount of monetary damages is not specified. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, management, after discussions with counsel, is unable to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis. See also Item 5—"*Legal Proceedings*" which is an integral part of these Financial Statements.

At January 31, 1980, Rapid was guarantor of the following: (a) $300,000 of mortgage notes previously held by Rapid or subsidiaries but sold to non-affiliates; (b) $34,100,000 of lease payments supporting industrial revenue bonds and approximately $29,100,000 of other lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; and (c) other obligations of approximately $7,900,000, the majority of which are lease payments of subsidiaries.

Rapid and certain of its subsidiaries make payment in the ordinary course of business by means of letters of credit in favor of suppliers. At January 31, 1980, the amount of letters of credit outstanding aggregated approximately $11,600,000.

16. OTHER REVENUES AND INTEREST AND DEBT EXPENSE, ETC.

(a) Other revenues—net consisted of the following:

	Year Ended January 31, 1980	1979
	(In Thousands)	
Interest income	$ 6,051	$3,934
Income (loss) of unconsolidated subsidiaries:		
Otasco Credit Corporation	536	296
Other	310	(1,086)
Royalties—net	1,870	196
Gain on cash purchases of subordinated debentures for sinking funds	159	1,221
Termination of capital leases	708	600
Sundry—net	1,914	2,717
Total	$11,548	$7,878

(b) Interest and debt expense consisted of the following:

	Year Ended January 31,	
	1980	1979
	(In Thousands)	
Interest on bonds, mortgages and similar debt	$ 55,020	$ 53,476
Interest on notes payable	41,596	35,100
Interest on capital leases	7,063	7,651
Amortization of debt discount and expense	5,586	5,447
Interest on accounts receivable financing:		
Otasco Credit Corporation	8,479	4,818
Other	1,770	1,212
Other, principally imputed interest	3,074	3,563
Total	$122,588	$111,267

(c) Deferred payment sales and the carrying charges thereon are included in income at the time such sales are made. The unearned portion of such carrying charges was not significant, and its recognition had no material effect on net income in such years.

17. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended January 31,			
	1980	1979	1980	1979
	Consolidated		Company	
	(In Thousands)			
Maintenance and repairs	$ 21,471	$ 19,455	$ 153	$ 131
Depreciation and amortization of property, plant and equipment	$ 29,857	$ 28,585	$ 643	$ 585
Depreciation and amortization of intangible assets	$ 4,748	$ 4,493	$3,093	$2,888
Taxes, other than income taxes:				
Property	$ 13,590	$ 14,919	$ 26	$ 50
Payroll	32,389	30,077	111	119
Federal excise, rectification taxes and duties on imported products	246,317	263,761	—	—
State beverage taxes	19,728	20,531	—	—
Other	4,175	3,775	451	433
Total	$316,199	$333,063	$ 588	$ 602
Rents, before reductions for subrentals received from tenants	$ 84,233	$ 77,650	$6,504	$ 6,341
Advertising costs	$ 60,626	$ 53,135	$ 40	$ 84

All amounts shown above pertain to continuing operations.

18. ACCRUED EXPENSES AND SUNDRY

Accrued expenses and sundry consisted of the following:

	January 31,	
	1980	1979
	(In Thousands)	
Taxes, other than Federal and foreign income	$ 48,928	$ 46,797
Salaries, wages, commissions, etc.	20,281	20,956
Interest	17,768	16,211
Contributions to employee benefit plans	13,573	13,904
Rents	10,131	8,766
Reserves for store closings	5,325	5,708
Other	23,758	24,945
Total	$139,764	$137,287

19. INTERIM FINANCIAL INFORMATION (Unaudited)

Financial Data

	Quarter Ended			
Year Ended January 31, 1980	**April 30**	**July 31**	**October 31**	**January 31**
	(In Millions, Except Per Share Amounts)			
Net sales	$561 3	$585.4	$683.3	$748 3
Gross profit	159 1	163.5	194.1	216.3
Income before income taxes	5.1	5.6	20 7	31.9
Net income	2.0	2.2	10.8	19.6
Per share of common stock (Note 13):				
Primary	$ .23	$ .25	$ 1.34	$ 2 53
Fully diluted	.22	24	1.14	2.09
Common stock dividends	.20	.20	—	.20
Year Ended January 31, 1979				
Net sales	$527.8	$556.2	$638.5	$731.5
Gross profit	149.8	153.3	185.8	208 3
Income before income taxes	3.5	6.2	26 2	42.5
Income before extraordinary credits	1 3	2.8	11.8	21.3
Net income	2 4	2.8	12.7	26 5
Per share of common stock (Note 13):				
Income before extraordinary credits:				
Primary	$ .11	$ .29	$ 1.38	$ 2 41
Fully diluted	.11	.28	1.15	1.93
Common stock dividends	.20	—	—	20

Market Prices, etc.

	Quarter Ended							
	April 30		July 31		October 31		January 31	
Year Ended January 31, 1980	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
Common Stock	$17¼	$14⅛	$18¼	$13⅞	$18¼	$16¼	$24¼	$17
$3 Preferred Stock	58¼	51⅞	63	49⅛	64½	57⅝	83	60
$2.25 Jr. Preferred Stock	54	47¾	57	45¼	58	52	73	59
$3.00 Redeemable Preference Stock (Note 6)	—	—	—	—	—	—	20½	18
Warrants to Purchase Common Stock	4	2½	3¾	2	3⅝	2⅜	5	2½
Year Ended January 31, 1979								
Common Stock	9⅜	5⅞	13	8⅞	16¾	11½	16⅝	11⅞
$3 Preferred Stock	36¼	29	44⅜	35¼	58	41½	57⅜	43¾
2.25 Jr. Preferred Stock	30	24⅛	40⅜	31	52¼	37	51½	35⅝
Warrants to Purchase Common Stock	1¾	¾	2⅞	1½	4¾	1½	3⅝	1⅞

All securities are listed on the New York Stock Exchange, Inc., except the Warrants, which are listed on the American Stock Exchange, Inc. Dividends were paid quarterly on the preferred and preference stocks at the indicated annual rate.

20. PARENT COMPANY FINANCIAL STATEMENTS

The following are condensed financial statements of Rapid-American Corporation (Parent Company):

CONDENSED BALANCE SHEETS

ASSETS

	January 31, 1980	January 31, 1979
	(In Thousands)	
Current assets	$ 29,325	$ 37,103
Investments in and advances to subsidiaries	468,670	497,330
Property and equipment—net	9,845	10,063
Intangibles	244,831	244,698
Other assets	3,310	3,614
Total	$755,981	$792,808

LIABILITIES AND EQUITY

	January 31, 1980	January 31, 1979
Current liabilities	$ 49,338	$ 58,437
Long-term debt, less current maturities and unamortized discount	411,597	473,858
Other non-current items	45,712	36,494
$3.00 redeemable preference stock	53,476	—
Preferred and common stockholders' equity	195,858	224,019*
Total	$755,981	$792,808

* Includes Rapid's equity before elimination in consolidation of McCrory's carrying value of its investment in Rapid common stock and warrants of $1,612,000

CONDENSED STATEMENTS OF INCOME

	Year Ended January 31, 1980	Year Ended January 31, 1979
	(In Thousands)	
Net sales and other income	$ 5,560	$ 9,810
Costs and expenses and other deductions	(23,454)	(18,445)
Interest and debt expense	(51,490)	(56,290)
Income tax benefits	31,353	30,102
Loss from operations before equity in income of subsidiaries and extraordinary credits	(38,031)	(34,823)
Equity in income of consolidated subsidiaries	72,634	72,065
Income before extraordinary credits	34,603	37,242
Extraordinary credits	—	7,191
Net income	$ 34,603	$ 44,433

CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31, 1980	1979
	(In Thousands)	
Funds Provided:		
Operations:		
Income before extraordinary credits	$ 34,603	$ 37,242
Less—equity in income of consolidated and non-consolidated subsidiaries	74,205	72,842
Loss before equity in income of consolidated subsidiaries and extraordinary credits	(39,602)	(35,600)
Cash dividends from subsidiaries	46,922	46,372
Charges not requiring current outlays—depreciation and amortization, including debt discount, excess cost, franchises and deferred income taxes	12,175	8,758
Funds provided by Parent Company operations, exclusive of utilization of loss carryforwards and tax credits	19,495	19,530
Utilization of loss carryforwards and tax credits	—	4,844
Funds from operations	19,495	24,374
Increases in long-term debt	—	12,331
Decrease in investments and intercompany balances—net	56,280	3,467
Issuance of $3.00 redeemable preference stock	53,436	—
Disposal of property, plant and equipment	459	53
Other—net	1,967	4,927
	131,637	45,152
Funds Applied:		
Decreases in long-term debt	65,524	17,770
Acquisition of common stock and preferred stocks	53,951	12,411
Additional consideration for acquisition of subsidiaries	—	6,090
Cash dividends	6,524	3,875
Investment in McGregor-Doniger Inc.	4,189	—
Additions to property, plant and equipment	128	164
	130,316	40,310
Increase in Working Capital	$ 1,321	$ 4,842
Increase (Decrease) in Working Capital by Major Components:		
Current assets	$ (7,778)	$(24,904)
Current liabilities	9,099	29,746
Increase in Working Capital	$ 1,321	$ 4,842

21. REPLACEMENT COST INFORMATION (Unaudited)

The replacement cost information set forth herein is furnished in compliance with rules of the Securities and Exchange Commission. The Commission cautions against simplistic use of such information.

The impact of inflation in recent years has resulted in the replacement cost of inventories and productive capacity being greater than the historical cost. Rapid and its subsidiaries generally have been able to recover the higher costs caused by inflation through increases in selling prices. The following data sets forth estimated current replacement cost of inventories and productive capacity at January 31, 1980 and 1979 (not the current value of such inventories and productive capacity), and the related effect such estimated replacement cost would have had on cost of goods sold and depreciation and amortization for the years ended January 31, 1980 and 1979.

Assumptions and General Estimation Methods Used

(a) Property, plant and equipment (including assets leased under capital leases).

Rapid and its subsidiaries considered and evaluated replacement plans in order to identify and exclude assets that are not expected to be replaced. As to those assets that are expected to be eventually

replaced, it was necessary to review existing plans for replacement or to formulate hypothetical plans. Such hypothetical plans are, of course, not as complete as would be necessary if actual replacement were imminent. However, they are based upon estimates of the general type of assets that would be acquired currently if replacement were necessary.

Estimated replacement costs of non-retail facilities were developed as follows: (i) major plant facilities using engineering estimates, (ii) other plant facilities using published indices, (iii) administrative offices and other supportive facilities using either estimated construction costs per square foot applied to existing square footage or historical costs indexed for increased cost of construction and (iv) transportation equipment, small machines and office furniture and fixtures using vendor quotations, published price lists and published indices.

Estimated replacement cost of retail facilities (including capital leases, other than Lerner) was developed by estimating the total selling square footage required to obtain each year's sales, and applying estimated construction costs (based on the respective year-end rates) per square foot (for store structures, furniture, fixtures, equipment and leasehold improvements) to total square footage. Excess space (generally at older, downtown stores) which probably would not be replaced, has been excluded from the replacement cost data. Current cost per square foot was developed from historical cost records of recently constructed stores.

Lerner has capitalized approximately 100 leases for retail facilities, principally for downtown stores and generally entered into over 20 years ago. Lerner's present practice is to enter into only operating leases, principally in shopping centers, and when the terms of the capital leases expire, Lerner has been and expects to continue replacing these leases with operating leases. Accordingly, management believes that reporting replacement cost information for the store structures of the approximately 100 stores would not be meaningful and in lieu thereof replacement rental costs are disclosed. The estimated rental costs based on replacement of these leases with operating leases (adjusting for reduced replacement square footage) approximates amortization and interest expense under capital leases, for both years. In addition, buildings containing retail facilities have been excluded from replacement cost based on Lerner's present practice as described above. Replacement rental costs for such facilities amounting to approximately $700,000 for each of the years ended January 31, 1980 and 1979 are included in replacement cost of goods sold.

Depreciation and amortization, based on the estimated replacement cost of productive capacity, was computed on a straight-line basis generally using estimated service lives and salvage values utilized in preparing the financial statements, adjusted for the estimated amount of fully depreciated assets which are still in use and have been written off for financial reporting purposes.

(b) Inventories.

Retail merchandise

Merchandise inventories are valued using principally LIFO. Replacement cost for LIFO inventories was estimated by determining the equivalent amounts computed under the retail inventory method. Management believes that such amounts, after consideration of the rate of inventory turnover, approximate estimated replacement cost. The historical cost of merchandise in transit equals current estimated replacement cost.

Whiskey, other spirits and wine

Tax paid and in bond inventory was valued principally at historical cost on a LIFO basis. Estimated replacement cost for tax paid and in bond inventory was estimated as the sum of (i) the current cost of a filled barrel, (ii) current storage costs per year multiplied by the number of years aged at January 31, 1980 and 1979 and (iii) where applicable, taxes paid.

Other inventory (principally manufactured goods)

The estimated replacement cost of other elements of inventory was generally computed using first-in, first-out inventory value revised, where appropriate, to year-end replacement cost estimates.

(c) Cost of Goods Sold.

Estimated replacement cost of goods sold, except for retail inventories, was computed using estimated replacement cost of inventories (derived under the methods described above) as close as possible to the dates of sale. Estimated replacement cost of goods sold for retail inventories was computed using the "lag" concept. Such concept is based on the following assumptions: (i) purchases precede sales by an amount of time equal to inventory turnover and (ii) the inflation rate is evenly spread throughout the year.

Estimated Replacement Cost Data

The following table summarizes estimated replacement cost and the comparable historical cost amounts:

	Estimated Replacement Cost	Comparable Historical Cost
	(In Millions)	
At January 31, 1980:		
Inventories	$ 764.9	$ 619.5
Property, plant and equipment	1,135.4	489.3
Property, plant and equipment—net	504.0	236.2
For the Year Ended January 31, 1980:		
Cost of goods sold	1,881.4	1,845.3
Depreciation and amortization	54.2	27.2
At January 31, 1979:		
Inventories	720.2	616.2
Property, plant and equipment	1,026.3	474.9
Property, plant and equipment—net	453.7	220.0
For the Year Ended January 31, 1979:		
Cost of goods sold	1,784.3	1,756.9
Depreciation and amortization	48.2	26.0

The following table reconciles the amounts in the consolidated financial statements with the amounts for which estimated replacement cost data are provided:

	January 31, 1980			January 31, 1979		
	Property, Plant and Equipment	Accumulated Depreciation and Amortization	Depreciation and Amortization	Property, Plant and Equipment	Accumulated Depreciation and Amortization	Depreciation and Amortization
			(In Millions)			
Totals in the consolidated financial statements	$645.2	$350.7	$29.9	$623.2	$353.1	$28.6
Add—Fully depreciated assets still in use	11.5	11.5	1.2	10.5	10.5	1.2
Deduct:						
Assets not expected to be replaced, principally reduced replacement square footage	(154.0)	(102.9)	(5.8)	(146.8)	(100.3)	(5.6)
Land and land improvements	(11.4)	(1.5)	(.1)	(10.2)	(1 4)	(.1)
Construction in progress	(2.0)	—	—	(1.8)	—	—
Excess of net assets acquired over related cost	—	(4.7)	2 0	—	(7.0)	1.9
Historical amounts for which estimated replacement cost data have been provided	$489.3	$253.1	$27.2	$474.9	$254.9	$26.0

22. SEGMENT INFORMATION

See "*Business*—Segment Information" included in Item 1 of this Form 10-K for net sales, operating profit (loss) and asset information relating to Rapid's industry segments, which are an integral part of these financial statements. Additional information concerning industry segments follows:

	Year Ended January 31,			
	1980		1979	
	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization
	(In Millions)			
Retail Merchandising				
Lerner Stores	$24.5	$ 8.2	$16.8	$ 6.9
McCrory Stores	13.9	9.0	5.4	9.6
OTASCO Automotive and Home Accessories Stores	4.3	2.4	4.2	2.1
Britts Department Stores and others	.6	1.1	1.1	1.2
Alcoholic Beverages				
Schenley	7.3	5.2	6 3	5.0
Apparel				
Industrial Group	1.4	2.3	1.8	2.3
Corporate and other	8.3	1.7	2.0	1.5
Total	$60.3	$29.9	$37.6	$28 6

23. SUPPLEMENTAL INFORMATION ON CHANGING PRICES (Unaudited)

The United States in recent years has experienced an increasing rate of inflation. Inflation tends to distort the traditional measurement of income and capital. The Financial Accounting Standards Board (FASB) recognized this problem and issued Statement No. 33—Financial Reporting and Changing Prices. This statement requires companies to demonstrate the effects of inflation on their operations by supplementing their historical financial statements with data that demonstrate the effects of inflation.

Historical data is adjusted for general inflation by using the Consumer Price Index for all Urban Consumers (CPI-U) as a broad-based measure of general inflation. The financial data for any comparison of a series of years that results from this method are expressed in terms of a common unit of purchasing power.

Rapid uses the LIFO inventory method in valuing substantially all of its inventories. Accordingly, since the LIFO method matches current costs with current revenues, Rapid has already made some allowance for the effects of general inflation in the historical financial statements.

The following data were prepared in accordance with the FASB Statement to demonstrate the effects of inflation.

Income from continuing operations adjusted for general inflation

	Year ended January 31, 1980	
	As reported	Adjusted for general inflation
	(In Millions)	
Net sales and other revenues	$2,590	$2,590
Cost of goods sold	1,845	1,849
Selling, general and administrative expenses	529	529
Interest and debt expense	122	122
Depreciation and amortization	30	53
Provision for income taxes*	29	29
	2,555	2,582
Income before extraordinary credits	$ 35	$ 8
Gain from decline in purchasing power of net amounts owed		$ 124

* In accordance with FASB Statement No. 33 the provision for income taxes is not adjusted for the effects of general inflation on income.

Five year comparison of selected supplementary financial data adjusted for general inflation

	Year Ended January 31,				
	1980	1979	1978	1977	1976
	(In Millions, Except Per Share Amounts)				
Net sales:					
As reported	$2,578	$2,454	$2,373	$2,346	$2,282
Adjusted for general inflation	$2,578	$2,738	$2,857	$3,011	$3,093
Reported information adjusted for general inflation					
Income before extraordinary credits	$ 8				
Income before extraordinary credits per common share—primary	$ .62				
Net assets at year end	$ 629				
Cash dividends declared per common share	$ .60	$ .45	—	—	$ .17
Market price per common share at year end	$18.92	$16.10	$ 7.04	$ 8.30	$ 8.24
Average consumer price index	219.7	196.9	182.5	171.2	162.1

24. SUBSEQUENT EVENT

On April 11, 1980, Rapid announced that it is considering submitting a proposal to its stockholders whereby a newly organized corporation would be merged into Rapid resulting in all of the common stock of Rapid being owned by Kenton Corporation, American Financial Corporation and certain of Rapid's present employee-stockholders. Kenton, American Financial and the employee-stockholders presently own approximately 33%, 15% and 10%, respectively, of Rapid's outstanding shares of common stock. This proposal is still under consideration by Kenton and American Financial, neither of which has yet determined the course to be pursued.

The Board of Directors of Rapid has proposed that upon the merger, Rapid's common stockholders would receive $45 principal amount of a new issue of Rapid debentures, bearing interest at the rate of 8% per annum, for each share of common stock. Kenton, American Financial and the employee-stockholders would continue as common stockholders.

The Board has appointed a committee composed only of outside directors to negotiate for the stockholders to determine the definitive terms of the new debenture. The committee will select and engage an independent financial adviser to participate in the negotiations. The terms will be announced as soon as they have been negotiated and established and it is anticipated that preliminary proxy material regarding the merger will be submitted to the Securities and Exchange Commission shortly thereafter.

Approval of the merger will be subject to a vote of Rapid's stockholders and the consent of certain lending institutions. The proposal contemplates that Kenton, American Financial and those employee-stockholders who will remain as common stockholders in Rapid will vote their shares in favor of the merger only if a majority of the remaining shares voting, vote in favor of the merger.

If the merger is approved by the stockholders, Rapid intends to offer to the holders of its $3.00 redeemable preference stock an opportunity to exchange each share of their stock for the same principal amount of the new debenture to be received by a holder of a share of common stock. Rapid also intends to offer to the holders of its common stock purchase warrants the opportunity to exchange each warrant for $10 principal amount of the new debenture.

OPINIONS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of Rapid-American Corporation:

We have examined the financial statements (listed in the accompanying table of contents) and the supplemental schedules (listed on page 76) of Rapid-American Corporation and subsidiaries. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries, which statements reflect revenues constituting 28% and 29%, respectively, of consolidated revenues for the years ended January 31, 1980 and 1979. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

As discussed in Note 15 to the financial statements, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various actions and claims. It is not possible to predict the ultimate outcome of such actions and claims.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the actions and claims referred to in the preceding paragraph been known, and based upon our examinations and the reports of other auditors, the accompanying consolidated balance sheets and consolidated statements of income, preferred and common stockholders' equity, and changes in financial position present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1980 and 1979 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

Deloitte Haskins & Sells
New York, New York
March 18, 1980
(April 11, 1980 as to Note 24)

To the Board of Directors
LERNER STORES CORPORATION
New York, New York

We have examined the following consolidated financial statements and related schedules of Lerner Stores Corporation and subsidiaries (none of which is presented separately herein):

Consolidated Statements of Income for the years ended January 31, 1980 and 1979

Consolidated Balance Sheets as of January 31, 1980 and 1979

Consolidated Statements of Stockholder's Equity for the years ended January 31, 1980 and 1979

Consolidated Statements of Changes in Financial Position for the years ended January 31, 1980 and 1979

Schedules for the two years ended January 31, 1980:

V—Property, Plant and Equipment

VI—Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment

Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Lerner Stores Corporation and subsidiaries at January 31, 1980 and 1979, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules listed above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

New York, New York
March 17, 1980

ERNST & WHINNEY

REPORT OF CHARTERED ACCOUNTANTS

To Schenley Canada Inc.

We have examined the consolidated financial statements of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1980 and 1979 and for the years then ended, and the schedules for the two years ended January 31, 1980. Our examinations were made in accordance with generally accepted auditing standards. and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examinations, the consolidated balance sheets and statements of consolidated income and retained earnings and of changes in consolidated financial position (all of which are not presented separately herein) present fairly the financial position of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1980 and 1979 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis; and the schedules for the two years ended January 31, 1980 (which are included in the consolidated schedules listed in the accompanying index and are not presented separately herein), when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

SAMSON, BELAIR & ASSOCIES,
Chartered Accountants

Montreal, March 17, 1980

PART I.

Item 1. ***Business.***

GENERAL

Rapid-American Corporation, a Delaware corporation ("Rapid"), is principally engaged (a) through its subsidiary, McCrory Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McCrory"), in retail merchandising, (b) through its subsidiary, Schenley Industries, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "Schenley"), in the production, importation and sale of alcoholic beverages under various brand names, and (c) through its subsidiary, McGregor-Doniger Inc. (which, together with its divisions, is sometimes referred to herein as "McGregor"), and certain other divisions and subsidiaries, in the manufacture and sale of a variety of consumer products.

As of January 31, 1980, Rapid and its subsidiaries employed approximately 48,000 persons.

As previously announced, it is anticipated that a merger proposal will be presented to the Rapid stockholders in the near future (see Note 24 to Financial Statements and Item 5 "Legal Proceedings—*Litigation Relating to Proposed Merger*").

FINANCING ARRANGEMENTS

Reference is made to Notes 2 and 5 to Financial Statements for a description of various financing arrangements of Rapid and its subsidiaries.

SEGMENT INFORMATION

The following table sets forth the identifiable assets of each major business segment of Rapid at January 31, 1980, 1979 and 1978:

Identifiable Assets

	January 31,		
	1980	1979	1978
		(In Millions)	
Retail Merchandising			
Lerner Stores	$ 247.1	$ 247.4	$ 223.6
McCrory Stores	192.8	198.9	203.2
OTASCO Automotive and Home Accessories Stores	111.6	105.3	90.0
Britts Department Stores and others	25.6	31.6	33.9
Alcoholic Beverages			
Schenley	774.0	780.3	807.8
Apparel			
Industrial Group	110.5	111.0	101.9
Investments in Non-consolidated Subsidiaries	32.6	32.1	30.6
Corporate Assets	93.5	77.5	70.7
Total	$1,587.7	$1,584.1	$1,561.7

Net sales of foreign operations (principally in Canada), export sales, government sales and sales to any individual customer, each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

The contribution of each of the major business segments to consolidated net sales and operating profit (loss) from continuing operations for fiscal 1979 and the prior four years are as follows.

	Fiscal Year				
	1979(a)	1978(a)	1977	1976	1975
			(In Millions)		
Net Sales					
Retail Merchandising					
Lerner Stores	$ 705	$ 695	$ 617	$ 582	$ 567
McCrory Stores	593	544	520	495	509
OTASCO Automotive and Home Accessories Stores	256	220	197	184	170
Britts Department Stores and others	71	84	91	104	98
Alcoholic Beverages					
Schenley	746	730	772	821	783
Apparel					
Industrial Group	207	181	176	160	155
	$2,578	$2,454	$2,373	$2,346	$2,282
Operating Profit (Loss)					
Retail Merchandising					
Lerner Stores	$ 96.8	$101.0	$ 74.2	$ 53.4	$ 59.9
McCrory Stores	42.5	34.9	27.9	22.3	8.4(b)
OTASCO Automotive and Home Accessories Stores	19.2	18.4	17.4	15.3	15.7
Britts Department Stores and others	(.5)	3.2	(1.6)	(1.1)	(1.2)(b)
Alcoholic Beverages					
Schenley	42.0	37.7	53.5	57.2	51.8
Apparel					
Industrial Group	5.7	12.2	7.1	3.9	(11.7)
	205.7	207.4	178.5	151.0	122.9
Unallocated Costs					
Interest and debt expense	122.6	111.3	103.9	103.8	128.1
General corporate expenses	24.9	19.9	19.4	19.9	23.6
Other (income) earned at the corporate level.	(4.2)	(3.0)	(2.1)	(9.6)	(3.2)
Equity in (income) loss of unconsolidated subsidiaries, etc.	(.9)	.8	.3	(1.4)	4.7
	142.4	129.0	121.5	112.7	153.2
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	$ 63.3	$ 78.4	$ 57.0	$ 38.3	$(30.3)

(a) During fiscal 1978, the last-in, first-out ("LIFO") method of valuing substantially all inventories was adopted. The LIFO inventory amount at the end of fiscal 1979 and 1978 was less than the first-in, first-out inventory amount by $56.2 million and $25.4 million, respectively.

(b) After aggregate provision of $13.4 million for closed stores.

RETAIL MERCHANDISING

At January 31, 1980, McCrory operated through its subsidiary, Lerner Stores Corporation ("Lerner"), 637 apparel specialty stores under the trade names "Lerner Shops", "Lerner" and "Jenny Lane", specializing in the sale of women's and children's apparel; through its McCrory Stores division ("McCrory Stores"), 715 variety stores under various trade names, including "McCrory", "McLellan", "H. L. Green", and "J. J. Newberry"; through its subsidiary OTASCO, Inc. ("OTASCO"), a chain of 261 automotive and home accessories company-owned stores and 420 franchised associate stores serviced by it, all operated under the trade name "OTASCO Stores" and engaged in the retail sale of automotive and home accessories; and through its Britts Department Store division, a chain of 14 "Britts" department stores. Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments.

As of January 31, 1980, McCrory and its subsidiaries employed approximately 36,000 persons.

Apparel Specialty Stores (Lerner)

The Apparel Specialty Stores operate a chain of retail stores under the trade names "Lerner Shops", "Lerner" and "Jenny Lane". As of January 31, 1980, there were 637 such stores in operation. Lerner sells, at moderate prices, substantially all articles of women's and children's apparel, except shoes. For the years ended January 31, 1980 and 1979, the merchandise categories set forth below accounted for approximately the following percentages of total store sales of Lerner:

	Year ended January 31,	
	1980	1979
Sportswear and sweaters	28.9%	29.3%
Dresses	16.6	16.1
Blouses	14.7	15.1
Children's wear	10.2	11.5
Underwear and hosiery	9.4	8.5
Coats and suits	8.3	8.4
Skirts	4.9	5.0
All other merchandise	7.0	6.1

The following table sets forth, for the three years ended January 31, 1980, the number of stores opened, closed, and in operation at the end of each year and approximate average net sales per store.

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store*
1978	38	16	498	$1,292,000
1979	74	7	565	1,316,000
1980	83	11	637	1,174,000

* Excluding stores opened or closed during the year. The decline in the average sales per store is primarily due to the smaller size new stores which have been opened in the last two years.

The stores are located in 44 states, the District of Columbia, Puerto Rico and the Virgin Islands, with the greatest concentration of stores in California, Florida, New York and Texas. Lerner has actively followed the larger shopping center concept of retail distribution, where most of its stores which have been opened in the past 20 years are located. It is anticipated that approximately 80 stores will be opened in each of the two years ending January 31, 1982.

The minimum sales area of any of the stores is approximately 1,700 square feet, the maximum sales area is approximately 27,300 square feet and the average sales area of all the stores is approximately 8,800 square feet; 321 stores have sales areas of under 8,800 square feet, and 316 have sales areas in excess of

8,800 square feet. The stores to be opened will have an average sales area of approximately 7,000 square feet. Lerner maintains a continuous policy of modernizing its stores.

The home office and major distribution center are located in New York City, and regional distribution centers are located in Atlanta, Georgia; Jacksonville, Florida; Chicago, Illinois; Denver, Colorado; Pittsburgh, Pennsylvania; Los Angeles, California; and Dallas, Texas. Buying is directed centrally, with direct shipment of most merchandise from the vendor to the distribution centers. The greatest portion of the merchandise carried is purchased in New York City. Merchandise is also purchased through a buying office in Los Angeles. Sales promotion and advertising, directed centrally, are modified to meet local conditions. Each distribution center services and supervises the stores in its area.

Lerner participates in bank credit card programs and also offers twelve-month revolving charge accounts, with service charges at rates prevailing locally. As of January 31, 1980, credit facilities were available in substantially all of the stores. Credit sales accounted for approximately 20% of net sales for the year ended January 31, 1980.

During 1975, Lerner entered into an agreement which currently expires in August 1980 with Citicorp Custom Credit, Inc. ("Custom"), pursuant to which Custom purchases and services Lerner's accounts receivable. The agreement imposes certain financial restrictions on Lerner, and upon termination of the agreement Lerner is obligated to repurchase all then "eligible" outstanding accounts receivable at their face amounts. Lerner and Custom have entered into a letter of intent to renew the agreement for five years. Under the renewal agreement the financial restrictions and repurchase obligation would be eliminated.

Lerner does not generally enter into long-term purchase contracts nor does it manufacture the products it sells.

In common with many other retail businesses, the business of Lerner is seasonal, with sales and earnings concentrated primarily in the second half of the fiscal year ending on January 31.

Competition

Lerner is subject to active competition from other apparel merchandising chains and from so-called "discount" organizations selling wearing apparel, as well as from department stores, specialty shops, mail order houses and other retailers. The primary competitive factors are fashion, price and product assortment. Management believes Lerner is the largest retailing chain in the United States specializing exclusively in women's and children's apparel.

Labor Relations

At January 31, 1980, Lerner had approximately 13,250 employees, some of whom were employed part-time. Temporary employees are added during certain holiday seasons and the peak is reached during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 20 years. Collective bargaining contracts are in effect in 139 stores and six distribution centers covering approximately 3,500 employees in 15 states.

Lerner has a non-contributory pension plan covering eligible employees.

Property

Lerner's policy is to lease, whenever practicable, rather than own its premises. As of January 31, 1980, with the exception of three distribution centers, six store locations and parts of four others, each of which was owned, all premises were leased. Most of the store leases provide for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes and insurance. The home office, central buying office and distribution center occupy approximately 395,000 square feet of office and warehouse space in New York City under leases expiring in 2004 renewable to 2024.

McCrory Stores

At January 31, 1980, McCrory Stores operated 715 stores (including 241 J. J. Newberry stores) in 37 states and the District of Columbia, with the largest concentration of stores in Pennsylvania, Florida, California and New York. Most of the stores are located in cities and towns having a population of less than 50,000, although the population of the geographical trading area served is generally from three to 10 times larger. A majority of the stores are located in downtown shopping areas; 284 are located in suburban and urban shopping centers and greater emphasis is now being placed on suburban shopping centers in the opening of stores.

The following table sets forth, for the three years ended January 31, 1980, the number of stores opened, closed, and in operation at the end of each year and approximate average net sales per store.

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store(1)
1978	11	92(2)	756	$621,000
1979	8	32	732	731,000
1980	17	34	715	803,000

(1) Excluding stores opened or closed during the year.

(2) Includes 53 Cassels United Stores, sold as of February 28, 1978.

The management of McCrory Stores has adopted a policy of eliminating unprofitable stores based upon lease expirations, locations and other relevant factors. It is anticipated that during the year ending January 31, 1981, approximately 19 stores (including approximately seven J. J. Newberry stores) will be closed and approximately 25 to 30 stores will be opened. Approximately 9% of the stores in operation at January 31, 1980 (not including J. J. Newberry stores) operated at a loss during both of the last two fiscal years, before allocating corporate financing and headquarters' administrative expenses and income taxes. On the same basis, approximately 19% of the J. J. Newberry stores operated at a loss during both of the last two fiscal years.

McCrory Stores sells a broad mix of merchandise, including men's, women's and children's apparel, jewelry, hardware, home furnishings, piece goods, stationery, toys, toilet articles and candy. Restaurants or luncheonettes are operated in 456 stores. McCrory Stores also operates seven free-standing restaurants under the trade names "Wm. Tally House" in the eastern United States and "Holland House" in the western United States. In addition, McCrory Stores also operates nine fast food service restaurants under the trade name "Capt. Mac's". These restaurants and luncheonettes are an important part of McCrory Stores' business and over the years have been a significant contributor to operating results.

For the years ended January 31, 1980 and 1979, the categories set forth below accounted for approximately the following percentages of total store sales of McCrory Stores:

	Year Ended January 31, 1980	Year Ended January 31, 1979
Apparel and accessories	29.5%	28.7%
Hardware and home furnishings	13.1	12.8
Restaurants and luncheonettes	9.2	9.8
Dry goods and domestics	7.5	7.9
Stationery	7.5	7.6
Toiletries and beauty aids	6.3	5.9
Toys, games and books	5.9	5.7
Concessions	5.7	6.0
All other merchandise	15.3	15.6

The minimum sales area of any store is approximately 1,300 square feet, the maximum sales area is approximately 80,500 square feet, and the average sales area of all of the stores is approximately 14,100 square feet; 274 stores have sales areas of under 10,000 square feet; 364 have sales areas from 10,000 to 24,999 square feet; 54 have sales areas from 25,000 to 40,000 square feet; and 23 have sales areas in excess of 40,000 square feet.

McCrory Stores consists of four operating regions with divisional support functions. Buying is divided into the broad groupings of apparel and variety. The main distribution and buying center for such merchandise is located in York, Pennsylvania, with a buying office for the west coast stores located in Los Angeles, California.

Warehouses are maintained at York, Pennsylvania and Los Angeles, California. In addition, relay stations are maintained at Albany, New York; Stockertown, Pennsylvania; Glen Burnie, Maryland; Charlotte, North Carolina; Atlanta, Georgia; Orlando, Florida; Dallas, Texas; and Columbus, Ohio, to service the stores in their geographical area.

McCrory Stores does not enter into long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names.

McCrory Stores' business is seasonal, with sales and earnings concentrated in the fourth fiscal quarter, ending on January 31.

Competition

The business of McCrory Stores is subject to active competition. The principal methods of competition are selection, price, quality, service and, to a lesser extent, style. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. McCrory Stores generally competes with other merchandising outlets selling comparable merchandise in the same geographical area, including chain, drug and other stores which offer a broad product mix, supermarkets, discount stores, hardware stores and numerous other independent local stores. While management of McCrory Stores believes that the stores are generally competitive with other stores in the areas in which they operate, increased competition has been experienced in recent years, particularly from certain nationwide mass merchandising chains.

Labor Relations

At January 31, 1980, McCrory Stores had approximately 18,500 employees, some of whom were employed part-time. During certain seasons as many as 3,000 temporary employees are added; the peak employment is reached during the Christmas season. There has been no substantial interruption or curtailment of operations due to labor controversies in over 10 years.

McCrory Stores has a non-contributory pension plan covering eligible employees.

Property

McCrory Stores' policy is to lease rather than own store premises whenever practicable. Most of the leases do not contain clauses authorizing cancellation by the lessee. A number of leases contain provisions for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance or both.

Automotive and Home Accessories Stores (OTASCO Stores)

At January 31, 1980, OTASCO Stores operated 261 company-owned stores in the south and southwest United States, and, in addition, supplied merchandise and merchandising aids to 420 franchised associate stores owned by third parties in the same geographical areas. The locations of the company-owned stores are divided almost equally between downtown areas and urban and suburban shopping centers; the associate stores, with few exceptions, are located in smaller communities. OTASCO Stores is continuously engaged in modernizing older stores. In the opening of company-owned stores, greater emphasis is being placed on strip shopping center locations.

The following table sets forth, for the three years ended January 31, 1980, the number of company-owned stores opened, closed and in operation at the end of each year and approximate average net sales per store.

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store*
1978	9	—	236	$572,000
1979	12	—	248	629,000
1980	15	2	261	700,000

* Excluding stores opened or closed during the year.

During the year ending January 31, 1981, it is anticipated that 20 company-owned stores will be opened and arrangements will be entered into for an additional 20 associate stores.

Though many products are carried in open displays, self-service operations are not a feature of OTASCO Stores' business. The stores sell over 9,600 items of merchandise, including tires, batteries, auto accessories and parts, home appliances, sporting goods, hardware, garden supplies, tools and housewares. In the year ended January 31, 1980, sales of major home appliances accounted for approximately 29% of OTASCO Stores' total sales. Most of the company-owned stores maintain service centers for the installation of replacement auto parts they sell.

During the year ended January 31, 1979, Otasco's newly organized subsidiary, Rapid Muffler, Inc., began a pilot program in Tulsa, Oklahoma, exclusively selling and installing car exhaust systems and shock absorbers. There are three stores presently in operation, and three or four are planned to be opened in 1980.

Approximately 52% of total sales in company-owned stores are on credit. Sales on credit are customarily secured by conditional sales contracts. In addition, most company-owned and associate stores participate in bank credit card programs.

Otasco Credit Corporation ("Credit"), a wholly-owned subsidiary of Otasco, finances Otasco's receivables. Credit has a revolving credit agreement, which expires on December 31, 1981, with a regional group of banks in the aggregate principal amount of $50,000,000, secured by substantially all of Otasco's trade accounts receivable. Such agreement provides, among other things, for an interest rate of ½ of 1% above the prime rate and maintenance of compensating balances equal to 15% of the borrowing. Credit and the lenders are presently discussing an increase in the credit line to $60,000,000.

OTASCO Stores' executive office is located in Tulsa, Oklahoma. Warehouses are maintained in Tulsa, Oklahoma; Atlanta, Georgia; Meridian, Mississippi; and Little Rock, Arkansas. Public warehouse space is leased in major market areas for short periods as seasonal demands require.

OTASCO Stores does not enter into any long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names.

Competition

The business of OTASCO Stores is subject to active competition from mass merchandisers, tire company outlets, various department stores, major appliance stores, variety stores, home and auto stores and sporting goods stores. The primary competitive factors are price, location, selection and service. Management believes that OTASCO Stores' pricing policies are competitive with other stores in the geographical areas in which it operates.

Labor Relations

At January 31, 1980, OTASCO Stores had approximately 2,700 employees. During certain seasons temporary employees are added and the peak employment is approximately 2,900 during the Christmas season. Labor relations are considered to be good and no material interruptions or curtailments due to labor controversies have occurred during the past decade.

OTASCO Stores has a non-contributory profit-sharing retirement trust covering eligible employees.

Property

OTASCO Stores' executive office and warehouse, located in Tulsa, occupy a 500,000 square foot facility (which has been leased through 2003) situated on a 28-acre site which provides for future expansion. This facility includes approximately 61,000 square feet of offices. The office and warehouse in Little Rock, containing 129,400 square feet of floor space, including loading docks, are leased through 1990. OTASCO Stores' warehouse and offices in Atlanta occupy a building, which has been leased through 1989, containing 148,000 square feet of floor space, including loading docks. The office and warehouse which OTASCO Stores has leased through December 1982 in Meridian contain 166,400 square feet of floor space, including loading docks.

All company-owned stores, except one, are in leased locations and in some instances are subject to more than one lease. Most of the leases do not contain clauses authorizing cancellation. Most of the downtown store leases are at fixed rentals, while most of the shopping center leases provide for additional rentals based on percentages of annual sales. A few leases require the tenant to pay property taxes or insurance, or both.

Britts Department Stores

As of January 31, 1980, Britts operated 14 department stores located in six states. Britts stores are junior department stores, stressing quality, style, fashion and customer service. Britts stores carry well-known brands of family apparel, accessories, jewelry, cosmetics and fragrances, in addition to assortments of housewares, domestics, gifts, sporting goods, furniture and appliances. Non-branded merchandise and name brand specials are used in support of its emphasis on promotion within each department.

All Britts stores are located in major shopping areas; one store is in a downtown location and 13 stores are in suburban and urban shopping centers. The minimum sales area of any store is approximately 31,000 square feet, the maximum sales area is approximately 99,000 square feet and the average sales area is approximately 50,000 square feet.

During the year ended January 31, 1979, five stores were closed and a new store in West Palm Beach, Florida was opened. During the year ended January 31, 1980, seven stores were closed. It is anticipated that during the year ending January 31, 1981 seven stores will be closed.

During each of the two years ended January 31, 1980, the men's clothing departments accounted for approximately 19% of net sales and the women's sportswear departments accounted for approximately 14% of net sales. Britts leases space in its stores to concessionaires pursuant to leases which provide for fixed minimum rentals plus additional rentals based on percentages of annual sales. Food service facilities are provided in 10 Britts stores.

Four Britts stores in operation at January 31, 1980 operated at a loss during both of the last two fiscal years, before allocating corporate financing and headquarters' administrative expenses and income taxes.

Britts generally does not enter into long-term purchase contracts and does not manufacture any of the products it sells.

Britts' business is seasonal, with sales and earnings concentrated primarily in the fourth fiscal quarter ending on January 31.

Britts provides its own credit facilities in all of its stores, and, in the year ended January 31, 1980, credit sales accounted for approximately 19% of sales. Britts also participates in bank credit card programs.

Competition

Britts stores are in competition not only with full-line department stores, but also with specialty, drug, appliance, variety and discount stores, both large and small, in their geographical areas. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. The principal methods of competition are advertising, promotion, price,

quality, style and service. While the management of Britts believes that it is generally competitive as to these factors with other stores in the areas in which Britts operates, Britts has been experiencing increasing competition in recent years.

Labor Relations

At January 31, 1980, Britts employed approximately 1,200 employees, some of whom were employed part-time. During certain seasons, temporary employees are added, and the peak employment is during the Christmas season. In Britts' history there has been no substantial interruption or curtailment of operations due to labor controversies.

Britts has a non-contributory pension plan covering eligible employees.

Property

All Britts stores are operated under leases, most of which require the annual rentals to be based, in part, on percentages of annual sales. The lease expiration dates range from 1983 to 2003; except for one lease, all leases contain options to renew for an additional term or terms aggregating not less than 10 years. In all cases, the rent during any renewal term is either the same or less than the rent during the initial term.

Canadian Operation

Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments. Gault leases, through 1995, a 96,000 square foot warehouse in Vancouver, partially used for manufacturing operations. At January 31, 1980, Gault employed approximately 100 persons.

Whimsy Works

In August 1979, McCrory acquired a chain of four retail outlets called Whimsy Works, which use animated amusement techniques to enhance the sale of edible specialty products. The Whimsy Works are located in regional malls in California and occupy approximately 700 square feet each.

S. Klein

As of October 1, 1975, McCrory assigned its rights as tenant under leases for five S. Klein Department Stores, Inc. ("S. Klein"; a wholly-owned subsidiary of McCrory) locations to Korvettes, Inc., a then wholly-owned subsidiary of Arlen Realty & Development Corp. See Note 9 to Financial Statements.

Miscellaneous

Substantially increased construction costs (including interest), zoning restrictions and ecological considerations, possible changes in shopping habits in the event of further increases in energy costs or possible shortages and certain other factors affecting the development of regional shopping centers have had, or may have, an effect on the rate of construction and expansion of large shopping centers and have resulted in significant increases in shopping center rentals. These factors may affect the nature and rate of expansion of certain McCrory operations, particularly Lerner.

ALCOHOLIC BEVERAGES

Schenley is engaged in the production, importation and sale of alcoholic beverages, including whiskies, gins, vodkas, rums, brandies, wines, beer, liqueurs, cordials and specialties. It is also engaged in various related activities such as the production and sale of cooperage and farm feeds, and the importation and sale of mineral waters, which in the aggregate are not significant in relation to its overall business.

In the year ended January 31, 1980, the five largest contributors to Schenley's operating income were *Dewar's White Label* Scotch whisky, *Mateus* wine and *Old Charter, Ancient Age* and *I. W. Harper* bourbon whiskies. *Dewar's White Label* Scotch whisky has been distributed under contracts which have been renewed from time to time since 1936, the latest of which extends to April 1983. The agreement relating to the distribution of *Mateus* wine expires in December 1985.

Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases overseas, distribution rights.

Domestic Alcoholic Beverages—Brands of domestic whiskies owned by Schenley include *Ancient Age, J. W. Dant, I. W. Harper* and *Old Charter* bourbon whiskies and *George Dickel* Tennessee whisky. Schenley's principal brands of blended whiskies are *Schenley Reserve* and *J. W. Dant.* Schenley owns numerous brands of domestic gins (including *Schenley* and *J. W. Dant*), brandies (including *Coronet* and *J. Bavet*), vodkas (including *Samovar, Schenley* and *J. W. Dant*), *DuBouchett Many Blanc* cordials, prepared cocktails (including *Cocktails for Two*), and other domestic spirit beverages. Schenley owns the *Dubonnet* brand in the U.S. and owns and distributes *Cruzan* and *Old St. Croix* Virgin Islands rums as well as *Ron Carioca* Caribbean rum.

Imported Alcoholic Beverages—Brands of imported beverages owned by Schenley or its foreign subsidiaries and affiliates include *J. W. Dant* and *Park & Tilford* Scotch whiskies; *Grande Canadian, MacNaughton, OFC* and *J. W. Dant* Canadian whiskies; *Olé* tequila; *Fratelli Lambrusco* and *Siglo* wines and *Cruz Garcia Reàl Sangria.* Brands of imported alcoholic beverages for which Schenley has United States distribution rights include *Dewar's White Label* and *Dewar's 12* Scotch whiskies, *Dewar's* Malt Scotch whisky, *Ne Plus Ultra* Scotch whisky and *Peter Dawson "Special"* Scotch whisky; *Power's Gold Label* Irish whiskey; *Plymouth* gin; *Mateus* wine; the *Stock* line of vermouth, brandy and cordials; the *Pedro Domecq* line of sherries, brandies and wines; the *Cambas* line of wines, brandy and liqueurs; *Asbach Uralt* brandy; *Glayva* Scotch liqueur; *Charles Heidsieck* champagne; *Lillet* aperitif; *Ackerman-Laurance, Bichot, Cupramontana, Joseph Drouhin, Faiveley, Fontanafredda, Guntrum, Hugel, Lamberti, Melini,* and *Verrazzano* wines; *Liquore Strega;* and *Oranjeboom* Holland beer. The earliest expiration date of any agreement for distribution rights in the United States is August 31, 1980 and the latest expiration date is September 24, 2003.

During the past fiscal year Schenley acquired United States distribution rights to *Fiuggi* and *San Pellegrino* Italian mineral waters.

The following table sets forth the approximate percentage of total case sales represented by the principal categories of alcoholic beverages sold by Schenley in the United States and Canada during the years ended January 31, 1980 and 1979. Each principal category has been profitable. However, Schenley's profits on the sale of straight whiskies and Scotch whiskies generally are higher than on the sales of its other products. Approximately 46% of Schenley's case sales in the United States are of imported products, principally Scotch and Canadian whiskies and wines from Portugal.

	Year Ended January 31,	
	1980	1979
Straight whiskies	23.3%	25.4%
Scotch whiskies	17.2	15.0
Wines	16.2	17.1
Gins and vodkas	12.9	12.0
Canadian whiskies	11.2	10.7
Blended whiskies	3.1	3.4
Rums, brandies, cocktails, cordials, etc.	16.1	16.4

Distribution and Marketing

In the domestic market, 18 states and Montgomery County, Maryland have established liquor distribution systems under which sales of alcoholic beverages are made directly through their liquor control boards and commissions. Schenley sells to all of these boards and commissions. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers, and in certain markets through Schenley's wholly-owned wholesalers. In the year ended January 31, 1980, no wholesale distributor accounted for more than 4.4% and no state

control board accounted for more than 3.3% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley advertises its products extensively, using various media, including magazines, newspapers, outdoor signs, and posters and point-of-sale promotional material, and, in addition, radio and television for wines and beer. Advertising and promotional activities in the industry are, however, subject to close regulation under Federal, state and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley utilizes six independent advertising agencies, and also places outdoor advertising through an agency owned by it. In the years ended January 31, 1980 and 1979, Schenley spent approximately $41,000,000 and $37,000,000, respectively, for advertising.

Foreign Operations

Schenley has wholly-owned subsidiaries in Canada and owns a 49.3% interest in AGE Bodegas Unidas, S.A., a Spanish company. See "*Property*" below for the plants and properties owned by the Spanish affiliate. Schenley maintains sales personnel in six countries outside of the United States, including countries mentioned immediately above. Approximately 31% of Schenley's consolidated net income in the year ended January 31, 1980 represents earnings of Schenley's foreign subsidiaries.

Major trademarks of Schenley are registered in various countries. Trademark licensing agreements are in effect with customers in 14 foreign countries, who produce products under these trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 22 foreign countries and overseas territories and dependencies on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley. The sales of Schenley to, and revenues derived from, these customers in foreign countries are not material.

Competition

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies. In the United States market there are many competitors, a number of which market both distilled spirits and wines. Competition is principally on the basis of price and product quality, with advertising an important factor. The management of Schenley believes that its products are generally competitive with respect to these factors.

Inventories and Raw Materials

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley and other distillers age their whiskies for four years or more. As a result, inventories in the industry are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, white oak for barrels, flavoring and bottling supplies. Schenley purchases its grains and the other materials from numerous sources. Schenley generally produces its own barrels, purchasing the rough staves and headings and other materials used in their production. Since many of the raw materials used in the production of Schenley's alcoholic beverages are agricultural products, prices and costs are subject to the influences common to those products, including climate and governmental influences on production and marketing. Schenley purchases its requirements of bottles and other packaging materials from various manufacturers and distributors.

Regulation and Taxation

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. Nineteen states have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding

prices charged in any other state. States in which alcoholic beverages are distributed through state agencies have, for many years, required suppliers to make similar warranties. Several states regulate the mark-up which may be made in prices at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships, by local option, to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing and supervision in Canada and other countries.

The Bureau of Alcohol, Tobacco and Firearms of the United States Treasury Department is conducting investigations of a large number of companies in the industry, including Schenley, on a nationwide basis. The Schenley investigation began in March 1979, and there is no indication of when it will be completed or what action, if any, may be taken. Charges dealing with business practices of Schenley over three years ago, brought by two state liquor control authorities, were settled by the payment of fines, but without any admission of wrongdoing.

The products sold by Schenley are subject to Federal excise taxes on distilled spirits and wines as well as varying Federal Customs duties on imports. Under the provisions of the Trade Agreements Act of 1979, particularly Title VIII thereof, significant changes in the method of Federal taxation and plant operation have been made. The Bureau of Alcohol, Tobacco and Firearms of the United States Department of the Treasury has issued interim regulations, which became effective January 1, 1980. These interim regulations may be changed as the result of industry comments.

The Federal rectification tax at the rate of 30 cents a proof gallon, which applied only to domestically rectified products, was repealed as of January 1, 1980, leaving the rate of Federal excise tax on all distilled spirits since that date at $10.50 a proof gallon. Distilled spirits are subject to other excise taxes, the most important of which are state gallonage taxes, varying in amount from $1.50 to $4.75 a wine gallon.

Imported distilled spirits and wines are also subject to Customs duties at varying rates. Prior to January 1, 1980, the duties, as well as applicable excise taxes, were calculated on a wine-gallon basis for distilled spirits imported in bottles, and on a proof gallon basis when imported in bulk containers. Since January 1, 1980, pursuant to the Trade Agreements Act, all excise taxes and duties have been calculated on a proof gallon basis, regardless of the type of packaging.

The principal Customs duties applicable to products imported by Schenley are as follows: a duty of 47 cents per proof gallon is assessed on bottled or bulk Scotch and Irish whiskies, and on gin from the United Kingdom and Germany; on Canadian whisky the rate of duty is 57 cents per proof gallon, whether bottled or in bulk. The rate of duty on brandies varies in the case of bottled goods on the value of the product per gallon. The rate of duty on bulk brandy and gin is lower than that on the bottled product.

Other changes made by the Trade Agreements Act provide that the time within which the tax on distilled spirits shall be paid will be extended in annual stages of 5 days each from the present period of 15 days to 30 days. Therefore, there will be a twenty day period for payment in 1980, a twenty-five day period in 1981 and a thirty day period in 1982 and subsequent years.

The entire structure of the law with respect to the establishment and operation of distilled spirits plants has been changed so as to provide for what is described as an "All-in-Bond" system. Under such system the entire premises of a distilled spirits plant are treated as bonded premises, with certain exceptions. The interim regulations provide for greater responsibility on the part of plant proprietors, and a lesser amount of Governmental supervision, with respect to operations, plant security and related matters.

While the foregoing changes enacted in the Trade Agreements Act of 1979 are generally favorable to Schenley's business, it is believed that their effect will not be material.

Schenley is subject to an antitrust consent decree pursuant to which it is prohibited, until May 1981, without Department of Justice or court approval, from acquiring from any other company any rights to import and sell or produce and sell any brand of Scotch whisky other than a brand of Scotch whisky produced by or for John Dewar & Sons, Limited and from acquiring any stock, assets or other financial interest in any company which holds or controls the right to produce and sell or import and sell any brand of Scotch whisky in the United States.

Employees

As of January 31, 1980, Schenley employed approximately 4,300 people in the United States and Canada and approximately 500 people in other countries.

Schenley has contracts covering wages, hours of employment, working conditions and related matters with a number of labor unions expiring at various dates to February 28, 1983, covering substantially all of the hourly-rated and certain of the salaried employees in the United States and Canada. Schenley maintains contributory and non-contributory pension plans and other benefit plans for its employees. and contributes to union pension and welfare plans.

In general, labor relations have been satisfactory and there have been no strikes in recent years that have been material to Schenley's overall business.

Property

Schenley operates nine plants for the production of distilled alcoholic beverages. These plants have an aggregate daily distilling capacity of approximately 182,000 proof gallons of whiskey or distilled spirits; facilities for bottling under normal conditions an aggregate of approximately 73,000 standard cases of product in an eight-hour day; and storage facilities for a total of approximately 3,000,000 barrels of aged and aging distilled spirits. Schenley's partially-owned Spanish affiliate operates wineries with an aggregate daily production capacity of 23,700 cases. In addition, Schenley owns four inactive plants, including a cooperage facility.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana; Frankfort and Louisville, Kentucky; Schenley, Pennsylvania; Tullahoma, Tennessee; and Fresno, California. In Canada, Schenley subsidiaries own distilleries at Valleyfield, Quebec and North Vancouver, British Columbia. A cooperage plant is located at Louisville, Kentucky. Schenley has a plant for the distillation of rum in the United States Virgin Islands.

Schenley owns all of its distilleries and plants. They are generally of sound construction, and, except for the inactive plants, are adequately equipped for carrying on Schenley's business and are generally in good operating condition.

Environment

Schenley's plants are subject to Federal, state and local pollution control regulations. Schenley is presently in full compliance with such regulations at all its plants in the continental United States. No major capital expenditures for pollution control compliance are anticipated for these plants for the forseeable future. Subject to the effect of inflationary pressures on costs, the operating expenditures of such plants are within reasonable limits and not material.

A subsidiary of Schenley, Virgin Islands Rum Industries, Ltd. ("VIRIL"), owns and operates a rum distillery in the United States Virgin Islands, and substantial capital expenditures would have been required to conform this facility with requirements stated in the discharge permit ("EPA permit") issued by the Environmental Protection Agency ("EPA"). Schenley requested adjudicatory hearings before the EPA in respect of these requirements, which were held commencing in July 1977, but were not then concluded, and were subsequently indefinitely postponed in view of discussions with EPA and with Virgin Island authorities including the Government's Department of Conservation and Cultural Affairs ("DCCA"). DCCA has authority to issue a new discharge permit.

VIRIL, EPA and DCCA have negotiated a proposed stipulation of settlement which would provide that compliance with the terms and conditions of the EPA permit, which were the subject of the recessed adjudicatory hearings before EPA, shall remain stayed and not in force.

DCCA shall issue a new discharge permit to VIRIL ("DCCA permit") pursuant to an application which VIRIL has filed. DCCA has submitted to VIRIL a draft permit containing terms and conditions in

accordance with the provisions of the stipulation, which are therein stated to be acceptable to DCCA, EPA and VIRIL and with which VIRIL can comply more readily than with the conditions in the EPA permit. The time for issuance of this permit by DCCA can not now be stated. A schedule of compliance for the period September 17, 1979 through April 1, 1983 is set forth in the stipulation with provisions for adjustment by reason of acts of God or unforeseen accidents beyond the control of VIRIL. Under such schedule, construction of a treatment system for the rum distillery wastes is to commence November 1, 1981, is to be completed December 1, 1982 and the system is to be in full operation on April 1, 1983. The DCCA permit will be for a period ending March 31, 1985, subject to the enactment of an amendment to the Virgin Islands Code to provide for a permit of such term. If a stipulation of settlement is not entered into, further administrative proceedings or litigation is possible.

EPA and DCCA have each given written assurance that even in the absence of the issuance of a formal discharge permit VIRIL may continue its operation as presently conducted. Neither EPA nor DCCA has asserted any claim for civil or criminal penalties against VIRIL for alleged violations of the Clean Water Act and both have given their assurances that so long as progress is being made toward execution of the stipulation of settlement, they will not seek penalties for any discharges made by VIRIL up to and including the time that the DCCA permit is issued.

In a related development, VIRIL has proposed to construct and operate pollution control facilities and construction of a second molasses storage tank in return for adequate assurances that certain favorable economic arrangements between VIRIL and the Virgin Islands Government (regarding the price VIRIL pays for molasses and certain tax exemptions and subsidies) would be maintained for a period of time long enough for VIRIL to recover its investment costs for the foregoing, presently estimated to cost approximately $3,300,000. Enabling legislation regarding the continuance of the molasses price subsidy was drafted and submitted by the Governor of the Virgin Islands to the President of the Legislature (the members of which have been briefed on the proposal) on March 7, 1980. The bill has not yet been formally introduced, the Legislature being in recess. It is expected that the Legislature will reconvene at an early date. If the bill is introduced and passed, and VIRIL's tax exemptions (applications for which are pending before the Industrial Development Commission of the Virgin Islands) and subsidies are extended, VIRIL will enter into an appropriate molasses subsidy guarantee contract with the Virgin Islands Government and a stipulation of settlement with EPA and DCCA, as set forth above.

During the Summer of 1978, Schenley sold its rum distillery in Puerto Rico to Bacardi Corporation, which succeeded to Schenley's position in the recessed EPA adjudicatory hearing with respect to that plant. Under its agreement with Bacardi, Schenley would have been liable for any civil or criminal penalties assessed for discharges from the Puerto Rican plant prior to its transfer to Bacardi. However, on September 1, 1979, Bacardi entered into a settlement with the EPA under which it agreed to provide treatment for the wastes of Schenley's former plant. On that same date, Schenley entered into a stipulation of settlement with the EPA in which that agency agreed not to assert any claim for penalties against Schenley for the discharges of the Puerto Rican plant.

INDUSTRIAL GROUP

Through McGregor, Rapid's Industrial Group manufactures (a) men's clothing, in several price ranges, including popular priced and medium priced suits and sport coats sold by the Botany '500' and Cross Country Divisions, under private labels and under the trademarks "Botany", "Botany '500' ", "500", "Cartier", "Worsted-Tex", "Fashion Park", "Stein Bloch", "Broadstreet's" and "Coat Tails"; (b) men's, women's and boys' shirts, sport shirts, screen-print shirts and ties sold by the Wonderknit, Beau Brummell and Botany Shirt Divisions under such trademarks as "Wonderknit", "Ramrod", "New Era", "Botany", "Botany '500' ", "500", "Slazenger", "Anvil", "Ched", "Manfredo", "Ruggers", "St. Andrews", "The Livingston Tennessee Shirt Company", "Beau Brummell", "Saddle Club", "Paco Rabanne" and "Bert Pulitzer"; (c) ladies' lingerie, sleep wear and undergarments sold by the Gilead Division under the "Gilead", "Gillies" and "Jubilee" trademarks (all of which are sometimes referred to herein as "Gilead");

(d) men's sportswear sold by the McGregor Sportswear Division under the trademark "McGregor", and such other trademarks as "Drizzler" and "Bernhard Altman"; and (e) infants' apparel under the trademark "Fawn" sold by the Gilead Division.

Sales and Distribution

McGregor sells directly to retail outlets throughout the United States through its own sales organizations. McGregor advertises in national and trade magazines and newspapers, and through printed material used in retail outlets. "Botany '500' " and "McGregor Sportswear" advertise on television and radio and in consumer newspapers and national magazines. McGregor uses cooperative advertising for its trademarked goods.

Trademarks are an important selling aid for the industrial group. The trademarks "Botany", "500", "McGregor", and a number of others are registered in the United States and in many foreign countries. McGregor has an established licensing program, under which it licenses the right to use "McGregor" and other trademarks to foreign manufacturers, who produce sportswear and other merchandise under these trademarks for sale in their own and other authorized countries. Under this program, McGregor also furnishes designs, patterns, engineering and other manufacturing and promotional services to its foreign licensees. McGregor also licenses its "McGregor" and other trademarks to domestic manufacturers for boys-wear. Rapid Menswear, Inc., a subsidiary of Rapid, has domestic licensing agreements pursuant to which it licenses, on a royalty basis, the production and sale by others under the Botany trademarks of men's and boys' hats and caps, neckwear, scarves, belts, hankerchiefs, pajamas and robes, men's and boys' shirts, raincoats and outdoor coats, small leather accessories, hosiery and other products. It also has licensing agreements with manufacturers in many foreign countries pursuant to which it licenses, on a royalty basis, the production and sale of men's tailored clothing, sportwear for men, women and children and other apparel products under the Botany trademarks.

Raw Materials

Certain operations of McGregor use both knit and woven cloth in the manufacture of apparel. Wonderknit has one knitting mill where many of the various types of knitted cloth required in its garment manufacturing operations are fabricated in their entirety from yarn to finished product. Wonderknit's knitwear operation purchases its yarn requirements from domestic sources and knits and finishes approximately 95% of its cloth requirements. Other McGregor operations purchase their finished cloth requirements primarily from domestic suppliers. Certain of these operations also import finished garments, primarily from the Far East, for sale to retailers.

McGregor's menswear divisions obtain the greatest portion of their clothing fabric (100% wool worsted, 100% wool, wool and synthetic fibre blend, and all synthetic fibre fabrics) from domestic suppliers.

Employees

At January 31, 1980, the industrial group employed approximately 7,200 persons. Approximately 40% of the production employees of McGregor, together with certain other employees, are covered by collective bargaining agreements. Several divisions and subsidiaries in the industrial group maintain pension, profit-sharing and other benefit plans for their employees and contribute to union pension and welfare plans. Labor relations have been harmonious and there have been no major work stoppages in recent years, other than an industry-wide men's clothing workers strike in 1974.

Competition

McGregor faces strong competition with respect to all of the consumer products which it manufactures and sells. The principal methods of competition include price, product quality and performance, ability to meet shipment schedules, selling and servicing the trade, direct and indirect advertising to the consumer, and the utilization of special promotional programs to deal with particular requirements, opportunities or market segments. In the opinion of the management of the subsidiaries and divisions comprising Rapid's industrial group, they are generally competitive with respect to these factors.

Management believes, on the basis of available information, that McGregor is one of the largest manufacturers of men's tailored clothing not directly affiliated with any men's clothing retailer.

Property

The industrial group operates 20 manufacturing facilities in the United States of which seven, containing approximately 850,000 square feet of space, are owned and 13, containing approximately 1,000,000 square feet of space, are leased. The industrial group also operates a number of sales offices and distribution centers. Management believes that McGregor's manufacturing facilities and equipment are capable of meeting operating requirements in peak periods.

ILC INDUSTRIES, INC.

Rapid owns approximately 74% of the common stock of ILC Industries, Inc. ("ILC"). ILC is engaged through its wholly-owned subsidiary, ILC Data Device Corporation in the research, development, manufacture and sale of advanced electronic data converters and through its division, ILC Dover, in the development, manufacture and sale of protective devices, including space suits, to isolate man from hostile environments. ILC is also engaged through its division ILC Services in the leasing of motor vehicles and other personal property to affiliates. The carrying value of Rapid's investment in ILC, including loans and advances and equity in undistributed earnings, aggregated approximately $8,200,000 at January 31, 1980. ILC reported net income of $2,124,000 for the year ended December 31, 1979. Under ILC's bank agreement, ILC is authorized in any calendar year to re-acquire shares of any class of its capital stock, pay cash dividends or reduce its indebtedness to Rapid provided the total expenditure for such transactions does not exceed an amount equal to 50% of the immediately prior year's net income.

Item 2. *Summary of Operations.*

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

SUMMARY OF CONSOLIDATED OPERATIONS

The following summary of consolidated operations for the five years ended January 31, 1980 should be read in conjunction with its notes, management's discussion and analysis and the financial statements and notes thereto.

	Fiscal Year				
	1979(a)	1978(a)	1977	1976	1975
	(In Thousands, Except Per Share Amounts)				
Net sales(b)	$2,578,290	$2,454,024	$2,372,954	$2,346,125	$2,281,991
Other income—net	11,548	7,878	4,306	14,572	11,934
	2,589,838	2,461,902	2,377,260	2,360,697	2,293,925
Cost of goods sold(b)	1,845,340	1,756,850	1,707,498	1,712,258	1,662,286
Selling, general and administrative expenses(c)	528,720	486,773	480,576	479,439	480,685
Interest and debt expense	122,588	111,267	103,929	103,807	128,085
Depreciation and amortization	29,857	28,585	28,251	27,078	28,373
Provision for closed facilities	—	—	—	1,300	19,679
Minority interest	—	—	—	(1,480)	5,097
	2,526,505	2,383,475	2,320,254	2,322,402	2,324,205
Income (loss) from continuing operations before provision (benefit) for income taxes	63,333	78,427	57,006	38,295	(30,280)
Provision (benefit) for income taxes	28,730	41,185	31,888	24,355	(6,563)
Income (loss) from continuing operations	34,603	37,242	25,118	13,940	(23,717)
Operations discontinued or sold:					
Provision for estimated losses on phase-out of S Klein	—	—	(7,500)	—	(5,309)
Income from operations (Playtex)	—	—	—	—	19,586
	—	—	(7,500)	—	14,277
Income (loss) before extraordinary credits	34,603	37,242	17,618	13,940	(9,440)
Extraordinary credits:					
Gains on debenture exchanges—net of tax	—	2,347	30,075	—	—
Utilization of loss carryforwards and tax credits	—	4,844	—	—	14,715
Net income	34,603	44,433	47,693	13,940	5,275
Consolidated preferred dividend requirements	3,616	1,809	1,928	2,023	1,652
Net income applicable to common stockholders	$ 30,987	$ 42,624	$ 45,765	$ 11,917	$ 3,623
Income (loss) per share of common stock(d):					
Primary:					
Continuing operations	$ 4 55	$ 4 52	$ 2.95	$ 1 54	$ (3 68)
Operations discontinued or sold	—	—	(.95)	—	2 07
Extraordinary credits	—	82	3.83	—	2.14
Net income	$ 4.55	$ 5 34	$ 5.83	$ 1 54	$ .53
Fully diluted:					
Continuing operations	$ 4 02	$ 3.92	$ 2.65	$ 1.43	*
Operations discontinued or sold	—	—	(.82)	—	*
Extraordinary credits	—	.66	3.28	—	*
Net income	$ 4.02	$ 4.58	$ 5.11	$ 1.43	*
Weighted average number of primary shares	7,876	8,745	7,854	7,734	6,894
Weighted average number of fully diluted shares	9,792	10,968	9,162	8,997	*
Cash dividends per share of common stock	$ 60	$ .40	None	None	$ .125

* Anti-dilutive.

See Notes to Summary of Consolidated Operations.

NOTES TO SUMMARY OF CONSOLIDATED OPERATIONS

(a) During fiscal 1978, the LIFO method of valuing substantially all inventories was adopted. The LIFO inventory amount at the end of fiscal 1979 and 1978 was less than the first-in, first-out inventory amount by $56.2 million and $25.4 million, respectively. See Note 1 to Financial Statements.

(b) Includes Federal excise taxes, import duties and state liquor taxes of $266,045,000, $284,292,000, $327,090,000, $356,192,000 and $352,329,000, respectively, for the five years ended January 31, 1980.

(c) Finance charge income on customer accounts receivable amounting to $9,540,000, $8,544,000, $7,745,000, $6,577,000 and $8,767,000, respectively, for the five years ended January 31, 1980, was applied as a reduction of selling, general and administrative expenses in the Summary of Consolidated Operations.

(d) See Exhibit A in Item 12(a).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF CONSOLIDATED OPERATIONS

Reference is made to "Segment Information" in Item 1, for the contribution of each major business segment to net sales and operating profit (loss) from continuing operations.

The decline in income from continuing operations in fiscal 1979 was principally attributable to the record interest rates in effect during the year, together with the increased impact of the LIFO method of valuing substantially all of Rapid's inventories. However, despite the decline in income from continuing operations, the primary and fully diluted per share amounts were greater than in the prior year due mainly to a reduction in the number of shares outstanding, offset in part by an increase in the consolidated preferred dividend requirement.

The increase in income from continuing operations in fiscal 1978 was attributable to the improvement in the results of the retail merchandising group, primarily due to increased sales and the maintaining of gross margins, offset in part by the adoption of LIFO and increased interest rates.

The improvement in income from continuing operations in fiscal 1977 was attributable primarily to improvement in the results of the retail merchandising group and the industrial group and a lower effective Federal income tax rate resulting from the inclusion, effective December 1, 1977, of McCrory and all of its domestic subsidiaries in Rapid's consolidated Federal income tax return.

The improvement in income from continuing operations in fiscal 1976 resulted primarily from decreased interest expense, due principally to lower borrowing levels and interest rates; improved operating performance by the industrial group; improved results from the retail merchandising group (after including the 1975 provision for store closings); and gains on the sale of trademarks ($4,000,000) and repurchases of sinking fund debentures.

Rapid's results of consolidated operations were materially affected in fiscal 1975 by provisions for estimated losses related to the decision to phase out the operations of S. Klein and for store closing programs, Rapid's provisions for loss on a lease, for the disposition of certain industrial group operations, and an extraordinary credit arising from utilization of net operating loss and foreign tax credit carryforwards.

Item 3. ***Properties.***

Rapid leases approximately 300,000 square feet of office space at 888 Seventh Avenue, New York, New York (under a lease expiring in 1995) for executive and administrative offices of Rapid and certain of its subsidiaries. Approximately 145,000 square feet of its space at 888 Seventh Avenue has been subleased to others. Rapid has leased for 25 years approximately 100,000 square feet of office space at 645 Fifth Avenue, New York, New York at an annual rental of approximately $1,800,000, plus additional amounts based upon increases in taxes and operating expenses; this space has been subleased to others. In October 1975, when Rapid determined that it would not occupy the premises at 645 Fifth Avenue, a reserve of $3,500,000 was established for the estimated loss to be incurred relating to such lease. At January 31, 1980, the reserve balance was approximately $1,500,000. McCrory leases approximately 139,400 square feet of space at 360 Park Avenue South, New York, New York, pursuant to a lease expiring in 1990 at an aggregate annual rental of approximately $450,000, plus additional amounts based upon increases in taxes and operating expenses. During 1975, McCrory subleased this space to the City of New York for a seven year term renewable through 1990.

Reference is made to Item 1 of this Annual Report on Form 10-K for information concerning other physical properties of Rapid and its subsidiaries.

Item 4. ***Parents and Subsidiaries.***

The following table sets forth certain information, as of March 31, 1980, with respect to the subsidiaries of Rapid, other than certain subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary. Except as otherwise indicated in the table, all of the following subsidiaries are included in the consolidated financial statements of Rapid listed in Item 12(a) of this Annual Report on Form 10-K.

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Parent—None(1)		
Subsidiaries of Rapid:		
McCrory Corporation	100%(2)	Delaware
Schenley Industries, Inc.	100%(3)	Delaware
McGregor-Doniger Inc.	100%(3)	New York
Anvil Brand, Inc.	100%(3)	Delaware
Rapid-American Menswear, Inc.(4)	100%(3)	Delaware
RAAM Information Services Corporation	100%	Delaware
View Top Corporation	100%	Delaware
ILC Industries, Inc.(5)	74%	Delaware
Leeds (Israel) Ltd.(6)	100%	Israel
Theatre Venture, Inc.	100%	Delaware
Triple Eight Corporation	100%	Delaware
Subsidiaries of McCrory Corporation(7):		
Lerner Stores Corporation	100%(8)	Maryland
Otasco, Inc.	100%	Nevada
J. J. Newberry Co.	100%(9)	Delaware
Whimsy, Incorporated	100%	California
S. Klein Department Stores, Inc.	100%	New York
S D Distributors, Inc.	100%	Delaware
H. L. Green Properties Corporation	100%	Delaware
McCarlen of Cherry Hill, Inc.	100%	New York
McCarlen Penn Center, Inc.	100%	Maryland

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Subsidiaries of Schenley Industries, Inc.:		
AGE Bodegas Unidas, S.A.(10)	49.3%	Spain
D.W.S. Corporation	100%	Quebec
Distributors of New England, Inc.	100%	Massachusetts
Dreyfus-Ashby & Co. Limited	100%	United Kingdom
Dubonnet Wine Corporation	100%	New York
L. E. Jung & Wulff Co., Inc.	100%	New York
Knickerbocker Market Research Corp.	100%	New York
Schenley Affiliated Brands Corp.	100%	New York
Schenley Charge Plan, Inc.	100%	New York
Schenley Distillers, Inc.	100%	Delaware
Schenley Enterprises, Inc.	100%	Delaware
Schenley Export Corporation	100%	New York
Schenley Far East, Ltd.	100%	Japan
Schenley International Co. Inc.	100%	Delaware
Trans-American Distributing Corp.	100%	Delaware
Virgin Islands Rum Industries, Ltd.	100%	Virgin Islands
Subsidiaries of D.W.S. Corporation:		
Schenley Canada Inc.	100%	Quebec
World T. and I. Corporation	100%	Panama
Subsidiaries of Schenley Canada Inc.:		
Canadian Gibson Distillery Ltd.	100%	Canada
Park & Tilford Canada Inc.	100%	British Columbia
Quebec Distillers Ltd.	100%	Quebec
John Mac Naughton Co. Ltd.	100%	Quebec
Schenley Wines and Spirits Ltd.	100%	Canada
Subsidiary of Distributors of New England, Inc.:		
Chas. Gilman & Sons, Inc.	100%	Massachusetts
Subsidiary of Chas. Gilman & Sons, Inc.:		
Harlan Merchandising Corp.	100%	Massachusetts
Subsidiaries of Knickerbocker Market Research Corp.:		
Merit House, Inc.	100%	Delaware
World Network, Inc.	100%	Delaware
Subsidiary of Schenley Affiliated Brands Corp.:		
Wine & Spirits Merchandisers, Inc.	100%	Illinois
Subsidiary of Schenley Distillers, Inc.:		
Tennessee Dickel Distilling Co.	100%	Tennessee
Subsidiaries of Trans-American Distributing Corp.:		
Best Brands, Inc.	100%	Colorado
Copper State Distributors, Inc.	100%	Arizona
International Distributing Corporation	100%	Maryland
Paradise Beverages, Inc.	100%	Hawaii
Quality Brands, Inc.	100%	Maryland
Subsidiary of Best Brands, Inc.:		
Colorado Delivery, Inc.	100%	Colorado

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Subsidiary of Quality Brands, Inc.:		
K-M Deliveries, Inc.	100%	Maryland
Subsidiaries of Anvil Brand, Incorporated:		
Almar Manufacturing Corp.	100%	Delaware
The Botany Shirt Company, Inc.(4)	100%	Delaware
Beau Brummell Ties, Inc.(4)	100%	New York
Friedman Marks, Inc.	100%	Delaware
Gilead Manufacturing Corporation(4)	100%	Rhode Island
Wonderknit Corporation(4)	100%	New York
Subsidiaries of ILC Industries, Inc.:		
ILC Data Device Corporation	100%	Delaware
Subsidiaries of ILC Data Device Corporation:		
ILC Data Device Export Corporation	98.8%	Delaware
Beta Transformer Technology Corporation	100%	New York
DDC United Kingdom Ltd.	100%	Delaware
DDC Electronique S.A.	100%	France

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(1) Kenton Corporation, a Delaware corporation ("Kenton"), purchased 1,680,407 shares of Rapid Common Stock (approximately 33% of the shares outstanding at January 31, 1980) during the period from October 1977 through April 1978; of which 1,137,919 shares were purchased from Meshulam Riklis, Chairman of the Board and Chief Executive Officer of Rapid; 162,488 shares from Isidore A. Becker, a Vice Chairman of Rapid; and a block of 380,000 shares from a group of unaffiliated private investors. Kenton's filings with the Securities and Exchange Commission indicate that a trust for the benefit of Mr. Riklis' children and grandchildren owns approximately 29% of the outstanding shares of Kenton common stock; that the Trustees are Mr. Riklis' three children (one of whom is a director of Rapid) and Arnold Broser (President and a director of Kenton and tax consultant to Rapid and its subsidiaries) and Arie Genger (a director of Kenton, President and Chief Operating Officer of McCrory, and a Vice President and a director of Rapid); that the Trustees and their spouses own in their individual capacities an additional 3.5% of the outstanding shares of Kenton common stock. In addition, Lorence A. Silverberg (a director of both Kenton and Rapid, President of Rapid, and the Chairman of the Board and Chief Executive Officer of McCrory) owns approximately 5% of the outstanding shares of Kenton common stock, Harold S. Divine (a Vice Chairman of the Board of Directors of both Kenton and Rapid) and Daniel J. Manella (Chairman of the Board of Directors of Kenton and a director of Rapid) each owns approximately 2% of the outstanding shares of Kenton common stock and George V. Delson is a director of both Kenton and Rapid. Kenton's stated purpose in its securities filings in acquiring the shares of Rapid Common Stock was to obtain control of the management and business of Rapid. (See Note 24 to Financial Statements.)

Pursuant to an agreement between Kenton and Mr. Riklis, at the option of either party, up to $6,750,000 of Kenton's indebtedness to Mr. Riklis (arising from the purchase of his shares of Rapid Common Stock) due from 1984 through 1986 can be satisfied by issuing shares of Kenton common stock at the rate of one share for each $15 of indebtedness. With the foregoing right to acquire shares of Kenton common stock, Mr. Riklis, the Riklis Family Trust, and the Trustees and their spouses, could have the ability to own approximately 40.2% of the aggregate shares of Kenton common stock issued or reserved for issuance.

Kenton is currently engaged through its subsidiary, Shenandoah Corporation, in the operation of two thoroughbred race tracks located in the area of Charles Town, West Virginia; through its subsidiaries, Melville Knitwear Co., Inc. and Plastic Toy and Novelty Corp., in the manufacture and sale of consumer products, principally ladies' and misses' sweaters and sportswear and plastic toys and novelty items; and through its International Health Company Division, in the management of hemodialysis centers, the rendering of other health services and the distribution of related products.

(2) Rapid has approximately 100% of the voting power except for the election of directors where it has approximately 81% of such voting power. These shares are pledged to secure Rapid's guarantee of McCrory's bank indebtedness. See Note 5 to Financial Statements.

(3) All voting securities are pledged to secure Rapid's guarantee of McCrory's bank indebtedness. See Note 5 to Financial Statements.

(4) Substantially all of the net assets were transferred to McGregor-Doniger Inc. in May 1979.

(5) Included in "Investments and Advances—Other investments, etc." in the consolidated balance sheets and in the condensed balance sheets of Rapid (Parent Company) set forth in Note 20 to Financial Statements.

(6) Included in "Other Assets" in the consolidated balance sheets and in the condensed balance sheets of Rapid (Parent Company) set forth in Note 20 to Financial Statements.

(7) For information regarding subsidiaries of McCrory's subsidiaries, see Item 4 of the Annual Report on Form 10-K of McCrory for the year ended January 31, 1980. Such information is incorporated herein by this reference.

(8) All voting securities are pledged to secure borrowings of McCrory. See Note 5 to Financial Statements.

(9) Arrearages in preferred dividends entitle the holders of such stock to elect two directors to the Board of Directors of J. J. Newberry Co.

(10) Included in "Investments and Advances—Other investments, etc." in the consolidated balance sheets.

Item 5. ***Legal Proceedings.***

Various legal proceedings are pending relating to transactions in which Rapid or its subsidiaries have been involved. These lawsuits have been brought against various defendants, including Rapid, its subsidiaries and predecessors, and certain of their officers and directors. Several of these lawsuits have been brought by persons alleging that they are owners of common stock, or other securities, of the particular corporation, that the suit is brought in behalf of that corporation and/or its security holders, and that one or more of the transactions have been unfair, fraudulent, or otherwise improper. The terms of the respective certificates of incorporation and by-laws of each of the corporate defendants require or permit, in accordance with the laws of the respective jurisdictions of incorporation, indemnification of officers and directors under certain circumstances.

Litigation Related to Formerly Proposed McCrory-Interstate Transaction

In 1974, the management of McCrory considered entering into a transaction with Interstate Stores, Inc. ("Interstate"), involving the sale by McCrory to Interstate of substantial assets in exchange for certain securities of Interstate (the "McCrory-Interstate Transaction"). That proposed transaction was abandoned before any agreement was reached, but, prior to that abandonment, certain suits challenging the McCrory-Interstate Transaction were commenced by alleged stockholders of Rapid or McCrory. Of those suits, the following are still pending.

In January 1974, an action was instituted in the Supreme Court of the State of New York, County of New York, by Charles Heit and Arthur W. Lichtenstein, allegedly stockholders of Interstate, on behalf of all stockholders of Interstate similarly situated, derivatively on behalf of Interstate. The complaint names as defendants Rapid, McCrory, Interstate, Meshulam Riklis, Isidore A. Becker, Samuel Neaman, former Chairman of the Board of McCrory, and the then principal executive officers and members of the Board of Directors of Interstate, including Sol W. Cantor, the then Chairman of the Board. The complaint alleges that in or about January 1974, Rapid, McCrory and Messrs. Riklis, Becker, Neaman, and Cantor embarked on a plan and conspiracy, in which the directors of Interstate participated, (a) to increase Rapid's ownership of McCrory to 100%, (b) to gain effective working control of Interstate for Messrs. Riklis, Becker and Neaman, and (c) to reap substantial gain and profit for Rapid, McCrory, and Messrs. Riklis, Becker, Neaman and Cantor, all at the expense and to the detriment of Interstate and resulting in waste and dissipation of the assets of Interstate. The complaint further alleges that the then proposed agreements involving Interstate represented a fraud on Interstate and a waste and dissipation of its assets because, among other things: (i) the agreement to issue to Mr. Neaman 1,000,000 shares of Interstate

common stock was a premium or compensation to Mr. Neaman for his consent to a transaction proposed in 1974 but unconsummated involving the merger of McCrory with a wholly-owned subsidiary of Rapid (the "Prior McCrory-Rapid Merger Proposal," to distinguish that proposal from the merger of McCrory with a wholly-owned subsidiary of Rapid on different terms in 1976), and the issuance of said shares would be a gift and waste of assets of Interstate, would be for inadequate consideration, would dilute the equity interest in Interstate of its present stockholders, and was part of a plan and scheme to place Messrs. Riklis, Becker, and Neaman in control of Interstate; (ii) the consideration that Interstate would pay to McCrory for the McCrory assets to have been acquired by Interstate was grossly excessive; (iii) Messrs. Riklis, Becker, Neaman, and Cantor would reap substantial gain and benefit from the transaction as a result of contemplated bank financing for Interstate's operations; and (iv) the transactions between McCrory and Interstate and between Mr. Neaman and Interstate were not negotiated at arm's length. The complaint seeks an injunction against the effectiveness and consummation of the purchase of certain divisions of McCrory by Interstate from McCrory and the issuance by Interstate to Mr. Neaman of shares of its common stock, an accounting by the individual defendants, McCrory, and Rapid to Interstate for unlawful profits and damages and injury to Interstate, and costs and disbursements, including attorneys' and accountants' fees.

In April 1974, an action was commenced in the Supreme Court of the State of New York, County of New York, by Lillian Rosenfeld, allegedly a stockholder of Rapid, derivatively on behalf of Rapid and double-derivatively on behalf of McCrory. The complaint names as defendants Rapid, McCrory, Interstate, and certain present or former members of the Boards of Directors and principal executive officers of Rapid and McCrory (including, among others, Meshulam Riklis, Isidore A. Becker, Bernard Kobrovsky, Fred Korros, Samuel J. Levy, Pinhas Riklis, Lorence A. Silverberg, and Leonard C. Lane). The complaint alleges, in essence, that: (a) Meshulam Riklis controls Rapid and, through Rapid, McCrory; (b) he used his control over Rapid and McCrory to benefit himself at the expense of Rapid, McCrory, and their stockholders; (c) Messrs. M. Riklis and Becker invested $5 million in Interstate, which investment diminished in value to a small fraction of its original worth because of substantial losses incurred by Interstate in its 1973 fiscal year; (d) in order to recoup their personal investment in Interstate, Messrs. M. Riklis and Becker formulated a plan consisting of the then proposed sale of assets to Interstate, none of the consideration for which would be cash, and the Prior McCrory-Rapid Merger Proposal; (e) the principal purpose of these transactions was to revive Interstate in order to enable Messrs. M. Riklis and Becker to obtain such recoupment of their investment; (f) the terms of the transactions favored Interstate and Messrs. M. Riklis and Becker, at the expense of Rapid and McCrory, as McCrory would not receive in return for its very profitable businesses the cash it would have otherwise received in an arm's length transaction; (g) the opportunity to invest in Interstate, and any benefits accruing to Messrs. M. Riklis and Becker therefrom, belonged to Rapid and McCrory; (h) such investment is improper for one serving as an officer or director of Rapid and McCrory because Rapid and McCrory compete with Interstate; (i) Interstate conspired with Messrs. M. Riklis and Becker to obtain McCrory's businesses at prices unfair to Rapid, McCrory, and their stockholders, and knew of the above-described purpose of the transactions; and (j) the individual defendants breached their fiduciary duties to Rapid, McCrory, and their respective stockholders, and Interstate knowingly participated in the alleged wrongs. The complaint seeks an accounting to Rapid and/or McCrory for any benefits received by defendants as a result of the alleged wrongs, injunctions preventing the then proposed sale of assets to Interstate and prohibiting the individual defendants from investing in any business competing with Rapid or McCrory, and an award of reasonable expenses, including counsel fees.

In February 1974, an action was commenced in the Supreme Court of the State of New York, County of Kings, by Harry Lewis, allegedly a stockholder of McCrory, derivatively on behalf of McCrory. The complaint names as defendants, among others, Rapid, McCrory, Interstate, and certain present and former members of the Boards of Directors and principal executive officers of Rapid and McCrory (including, among others, Meshulam Riklis, Isidore A. Becker, Bernard Kobrovsky, Leonard C. Lane, Samuel J. Levy, Stanley H. Kunsberg, Harold M. Lane, Sr., Harold M. Lane, Jr., and Leonard Spangenberg). The complaint alleges in essence that: (a) the McCrory-Interstate Transaction was arranged by Messrs. Riklis and Becker to protect and enhance the value of their investments in notes and warrants of Interstate, which company was suffering losses, was without bank credit, and was facing bankruptcy; (b) the aforesaid

investments in Interstate represented business opportunities of McCrory which were appropriated by Messrs. Riklis and Becker and should have been presented to McCrory; (c) as a result of the sale of assets by McCrory, Messrs. Riklis and Becker and others would make profits that should have been made by McCrory, or alternatively, McCrory would suffer losses to protect their investments; and (d) the individual directors of McCrory who approved the transactions have violated their fiduciary duties to McCrory. The complaint seeks an accounting to McCrory for the acts complained of, a judgment requiring defendants to pay over to McCrory any losses sustained by McCrory and any profits received by any of the defendants, and costs and disbursements, including attorneys' and accountants' fees.

Louisiana Antitrust Action Relating to Liquor

The antitrust action against Schenley and other companies in the liquor industry that had been pending in the United States District Court for the Eastern District of Louisiana entitled *Schwegmann Bros. Giant Supermarkets, et al. v. Almaden Vineyards, Inc., et al.*, which was previously described in the Form 10-K of Rapid for the fiscal year ended January 31, 1979 under the caption "Legal Proceedings—Louisiana Antitrust Action Relating to Liquor," has been settled by Schenley by payment to plaintiffs of $400,000. The terms of the settlement agreement also provide for the settlement and dismissal of the second complaint filed in this action which was also described in the Form 10-K of Rapid for the fiscal year ended January 31, 1979. Schenley was dismissed from both actions by the Court on February 8, 1980. The Distilled Spirits Council of the United States, Inc., was granted summary judgment by the Court in January 1980 and dismissed from the action. All other remaining defendants in the action have also settled with the plaintiffs.

Pennsylvania Antitrust Actions Relating to Coal

In December 1978, Allied Chemical Corporation commenced an action in the United States District Court for the Eastern District of Pennsylvania, naming various defendants, including Glen Alden Coal Company, a Pennsylvania corporation, which in 1955 changed its name to Glen Alden Corporation. In July 1979, Allied Chemical Canada, Ltd., commenced an action in the United States District Court for the Eastern District of Pennsylvania, naming various defendants, including Glen Alden Coal Company. In 1966, Glen Alden Corporation sold its coal mining operations to Blue Coal Corporation, which is also named as a defendant in the Allied Chemical Canada Action and in a related action brought by Allied Chemical Corporation. In 1967, Glen Alden Corporation merged with other corporate entities, and the surviving corporation of such merger was Glen Alden Corporation, a Delaware corporation (Rapid's former name). Each of the aforesaid actions seeks treble damages in an unspecified amount for an alleged conspiracy to fix prices for anthracite coal, of which plaintiff was an alleged purchaser, and an injunction against the continuation of the alleged conspiracy in restraint of trade, and from engaging in like conduct in the future. It is possible that additional claims of the same nature may be asserted in the future.

Litigation Relating to Redemption of Rapid's 5¾% Convertible Subordinated Debentures Due 1977

In July 1975, the 5¾% Debentures (the "5¾% Debentures") of Rapid were redeemed prior to their maturity (the "Redemption"). The Redemption was challenged in two suits. One of those actions, which was instituted on or about June 5, 1975, by Victor Kurtz and Ellen Kurtz, allegedly debentureholders of Rapid, individually and as joint tenants on behalf of themselves and all other debentureholders of Rapid allegedly similarly situated, is still pending in the Supreme Court of the State of New York. The Amended Complaint names as defendants Rapid, certain present members of the Board of Directors and executive officers of Rapid (including Leonard C. Lane and Meshulam Riklis), and a former trustee of the Retirement Benefits Plan for the Variety Stores Division of McCrory (the "Retirement Benefits Plan").

The complaint in that action alleges, among other things, that (i) Mr. Lane and members of the family of Mr. Riklis owned respectively $667,200 and $291,200 principal amount of 5¾% Debentures prior to the Redemption; (ii) the 5¾% Debentures were selling at a discount prior to the announcement of the Redemption; (iii) Mr. Lane and the members of the family of Mr. Riklis received a windfall profit of $179 for each $1,000 principal amount of 5¾% Debentures held by those persons as a result of the increase in the market price of 5¾% Debentures which followed the announcement of the Redemption; and (iv) Rapid should not have redeemed the 5¾% Debentures held by, among others, Mr. Lane and the members of the family of Mr. Riklis.

The complaint seeks: (a) a perpetual injunction against Rapid's (i) redeeming the 5¾% Debentures prior to their maturity date if that redemption would result in any additional borrowings by Rapid prior to January 1, 1977, *(ii) redeeming any of the 5¾% Debentures held by defendants prior to their maturity* date, and (iii) incurring any further indebtedness which would be senior to the indebtedness represented by the 5¾% Debentures allegedly owned by plaintiffs; (b) an award of damages in an amount to be fixed by the Court if injunctive relief is deemed inadequate; and (c) a preliminary injunction pending the trial of the action against Rapid's redeeming any of the 5¾% Debentures held by defendants prior to their maturity date.

On July 1, 1975, the Court denied plaintiffs' request that a limited preliminary injunction be granted against the redemption of any of the 5¾% Debentures held by defendants or by members of defendants' families. On July 1, 1975, Rapid redeemed the 5¾% Debentures.

Securities and Exchange Commission

On August 16, 1979, Rapid, McCrory, Meshulam Riklis, the Chairman of the Board, Chief Executive Officer and then President of Rapid, and Kenton consented to the entry of judgments against them, without admitting or denying the allegations of a complaint filed against them on that day by the Securities and Exchange Commission in the United States District Court for the District of Columbia.

The complaint in the action contained allegations concerning a pattern of transactions whereby Rapid, McCrory, and Kenton paid fees and entered into agreements with personal creditors of and persons who entered into business relationships with Mr. Riklis. It was alleged that the transactions in question were either negotiated or approved by Mr. Riklis at a time when he was the Chairman of the Board and the Chief Executive Officer of Rapid, the Vice Chairman of the Board of McCrory and one who exercised substantial influence over the business and affairs of Kenton. The complaint also contained allegations concerning a transaction in which Kenton purchased from Mr. Riklis his shares of Rapid Common Stock in order, among other reasons, allegedly to allow Mr. Riklis to repay personal indebtedness. The complaint alleged that in certain of the transactions Rapid and/or McCrory, at the direction of Mr. Riklis, paid finder's fees or entered into consulting agreements with personal creditors of Mr. Riklis, and that neither the substance of the transactions nor Mr. Riklis' conflict of interest in causing the transactions to be consummated was disclosed to the Board of Directors of Rapid and/or McCrory. In another transaction it was alleged that Mr. Riklis caused McCrory to amend an employment agreement with a senior executive of McCrory in order to allow the senior executive to receive immediately accrued compensation, to which he was not then entitled, which money was then immediately loaned to Mr. Riklis, and that the Board of Directors of McCrory, who later approved the amendment, was not informed that the proceeds resulting from the amendment were used to make a loan to Mr. Riklis. In other transactions it was alleged that Mr. Riklis negotiated, directly or indirectly, or approved employment agreements on behalf of Rapid and McCrory with senior executives of those companies who were or became his personal creditors or who had or who entered into personal business relationships with him, and that Mr. Riklis did not disclose to the Boards of Directors of Rapid and McCrory his debtor-creditor or other personal business relationships with the executives in question and his resulting conflict of interest. The allegations concerning Kenton relate to the purchase by Kenton of approximately 1,100,000 shares of Rapid Common Stock from Mr. Riklis in order, among other reasons, allegedly to allow Mr. Riklis to amortize his personal loans while at the same time retaining his control of Rapid through his substantial influence over the business and affairs of Kenton. In addition, it was alleged that Mr. Riklis caused Kenton, as he did Rapid and McCrory, to enter into transactions with persons who were or became, soon after the transactions were consummated, his personal creditors.

At the time of the filing of the complaint and the related judgments, Rapid, McCrory, Mr. Riklis and Kenton filed undertakings with the Court requiring them to carry out certain obligations, including the creation of a Transaction Review Committee of the Board of Directors of Rapid. Pursuant to Rapid's undertaking, disclosure to the new Transaction Review Committee of the Board of Directors of Rapid would be required of personal transactions between officers or directors of Rapid or any of its subsidiaries and third parties prior to Rapid's or any of its subsidiaries' entering into transactions with such parties. In addition, approval by the Transaction Review Committee would be required prior to the consummation of any transaction between such third parties and Rapid or its subsidiaries. Also in accordance with Rapid's

undertaking, effective on August 16, 1979, Rapid's Board of Directors was expanded from 12 to 16 members and the four new members of the Board of Directors were elected to the Transaction Review Committee. Prior to their election as directors, none of the new directors had any business relationship with Rapid or with any existing director or officer of Rapid. The qualifications of the new directors were submitted to the staff of the Securities and Exchange Commission.

On February 15, 1979, Rapid and Schenley entered into consent decrees with the Securities and Exchange Commission in connection with an action filed by the Commission in the United States District Court for the Southern District of New York on February 15, 1979. Injunctions entered against Rapid and Schenley, respectively, and the related consents and undertakings given by Rapid and Schenley, among other things, enjoined violations of certain provisions of the federal securities laws, required certain filings to be made with the Commission, and required that Schenley undergo an investigation. The action concerned certain business practices, mainly relating to depletion allowances, which Schenley believes were common in the liquor industry and which have been discontinued in all respects since early 1976. In October 1977 Schenley's Board of Directors initiated a voluntary investigation of prior business practices. Pursuant to the consent decree, Schenley agreed to appoint independent counsel to continue the investigation concerning other payments and practices. Such counsel had previously conducted Schenley's voluntary investigation. On August 24, 1979, the independent counsel's report was filed with the Court and the Securities and Exchange Commission. Insofar as the management of Schenley is concerned, the report concluded that ". . . the senior management of Schenley was either unaware of most of the questionable or illegal practices which we have reported upon, or when they became aware of them, took timely action to have such practices stopped." The report contains certain recommendations regarding actions that Schenley should take to insure its continued compliance with applicable federal and state laws governing the liquor industry. No fraud charges were made against Rapid and no allegations were made that it participated in any of the business practices which were the subject of the action.

Litigation Relating to Compensation and Other Matters

A challenge to the compensation and perquisites of employment of certain of Rapid's officers and directors was made in stockholders' derivative actions instituted in the state courts of Delaware and New York. On January 23, 1978, the Delaware Court of Chancery entered an order and judgment approving as fair, adequate, reasonable, and proper a settlement agreement, in which plaintiffs in all related actions joined, which order and judgment became final during March 1978. The settlement agreement provided for Messrs. Riklis, Becker and Lane to waive certain contractual rights and for the discharge of all individual defendants, including those persons, from any liability relating to the compensation paid and perquisites of employment given to such defendants prior to December 13, 1977, the date of the settlement agreement. In addition, pursuant to the settlement agreement Messrs. Riklis, Becker and Lane became obligated to pay Rapid $50,000, $125,000 and $25,000, respectively, in five equal annual installments, without interest, commencing March 31, 1979. The first two installments have been paid.

In July, 1979, an action was instituted in the Supreme Court of the State of New York, County of New York, by William B. Weinberger, allegedly derivatively on behalf of Rapid. The following directors of Rapid are named as defendants in the action: Meshulam Riklis, Isidore A. Becker, Harold S. Divine, Leonard C. Lane, Samuel J. Levy, Pinhas Riklis, Bernard Kobrovsky, Fred Korros, Lorence A. Silverberg, and Mona R. Ackerman.

The complaint alleges that Meshulam Riklis dominates and controls Rapid and its subsidiaries and has selected and caused to be elected all of the members of the Board of Directors of Rapid and that Mr. Riklis and the remaining individual defendants have caused Rapid and its subsidiary Schenley to pay compensation and deferred compensation to Messrs. Riklis and Becker in amounts which are grossly excessive, and which bear no relationship to the value of the services rendered to Rapid and Schenley by Messrs. Riklis and Becker. In addition, the complaint alleges that Messrs. Riklis and Becker devote a substantial portion, if not most, of their time to affairs other than the affairs of Rapid and its subsidiaries. It is alleged that Messrs. Riklis and Becker both receive substantial remuneration from AITS, Inc., and its subsidiary, Hotel Riviera, Inc. The complaint further alleges that Messrs. Riklis and Becker and the other individual defendants were grossly negligent in the discharge of their duties and committed gross mismanagement of Rapid in violation of their fiduciary duties as directors by, among other things, causing

Rapid and Schenley to enter into excessive compensation arrangements with Messrs. Riklis and Becker. By reason of such actions, Messrs. Riklis and Becker and the other individual defendants have failed to exercise reasonable and ordinary care, skill and diligence in conducting the business of Rapid and wasted the assets of Rapid.

In August, 1979, the complaint was amended to add George V. Delson, Arie Genger (directors of Rapid), McCrory and certain other individual defendants, and to add allegations relating to the transactions which are set forth in the complaint filed by the Securities and Exchange Commission (see above for a description of the Securities and Exchange Commission's complaint).

The amended complaint seeks to enjoin any further performance by Rapid, McCrory and Schenley of the agreements described therein, including the employment arrangements with Messrs. Riklis and Becker, and seeks to require the individual defendants to account for all damages sustained by Rapid, McCrory and Schenley and for all benefits received by them. In addition, the amended complaint seeks costs and disbursements of the action, including counsel and accountants' fees.

In September, 1979, an action was instituted in the United States District Court for the Southern District of New York by Bernard Pogostin, allegedly derivatively on behalf of Rapid and McCrory. The following directors of Rapid are named as defendants in the action: Isidore A. Becker, Harold S. Divine, Arie Genger, Seymour Kleinman, Bernard Kobrovsky, Fred Korros, Leonard C. Lane, Samuel J. Levy, Dan Palmon, Meshulam Riklis, Pinhas Riklis, Lorence A. Silverberg, Leo Stone, Helen Updike and Mona Ackerman. The complaint also names all but one of McCrory's directors and Kenton.

The complaint contains allegations relating to the transactions which are set forth in the complaint filed by the Securities and Exchange Commission (see above for a description of the Securities and Exchange Commission's complaint).

The complaint seeks to require the individual defendants and Kenton to account to Rapid and McCrory for all profits made by them and for the damages sustained by Rapid and McCrory.

Litigation Related to Debenture Exchange Offer

In August, 1979, an action was instituted in the United States District Court, Central District of California, by Harold Loveman and others. The following directors of Rapid are named as defendants in the action: Meshulam Riklis, Isidore A. Becker, Mona Ackerman, Samuel Levy, Lorence Silverberg, Arie Genger, Leonard Lane, Harold Divine, Fred Korros, Bernard Kobrovsky and Pinhas Riklis.

The complaint alleges that certain of the defendants knew that Rapid intended to make an exchange offer for its 6% Sinking Fund Subordinated Debentures due 1988 (the "Debentures") and wrongfully withheld such information from the public in violation of the federal securities laws. The complaint further alleges that prior to the public announcement of such exchange offer on August 25, 1977, the plaintiffs sold their Debentures at prices not commensurate with their value. Plaintiffs are seeking actual damages in the amount of approximately $50,000, which equals the amount plaintiffs allege was lost by selling their Debentures prior to the public announcement of that exchange offer. In addition, the complaint seeks punitive damages in an unspecified amount and costs and disbursements in connection with the action, including counsel and accountants' fees. On defendants' motion, the case has been transferred to the United States District Court, Southern District of New York.

Litigation Related to Claims that Mr. M. Riklis Acquired Corporate Opportunities Which Allegedly Belonged to Rapid or McCrory

On August 31, 1972, an action was instituted by Albert Kaufmann, allegedly a stockholder of Rapid, purportedly on behalf of Rapid and McCrory, in the Supreme Court of the State of New York, County of New York. On or about July 3, 1973, an amended and supplemental complaint was served which names as defendants Rapid, McCrory, and Meshulam Riklis. The amended and supplemental complaint alleges, in essence, that: (a) the opportunities to acquire control of Kenton Corporation, AITS, Inc., Hotel Riviera, Inc., K. Gimbel Accessories, Inc., Arnak Corporation, Artistic Leather Goods Manufacturing Corp., and Steer Leather Goods Corp. (which corporations are herein collectively referred to as "the acquired corporations"), and ownership of certain real estate, all upon advantageous terms, were presented to Mr. Riklis; (b) in each case, Mr. Riklis and certain directors of the corporate defendants entered upon a plan to divert such opportunity to him in order to enable him to profit at the expense and to the detriment of

such corporate defendants; (c) Mr. Riklis arranged for himself or for entities which he controlled or in which he was a principal to enter into agreements to acquire control of the acquired corporations and ownership of said real estate; (d) the acquisition of control of the acquired corporations and the ownership of said real estate would have represented a profitable investment for the particular corporate defendants; (e) Mr. Riklis was obligated to submit for consideration to one of the corporate defendants the opportunity to acquire control of the acquired corporations and ownership of said real estate; (f) regardless of the decision of any of such corporate defendants concerning such acquisitions, Mr. Riklis was obligated not to acquire for himself, directly or indirectly, control of the acquired corporations and ownership of said real estate; and (g) Mr. Riklis's diversion of these corporate opportunities constituted gross mismanagement, a breach of his fiduciary duties owed to Rapid and McCrory, and a breach of his employment agreements. The amended and supplemental complaint seeks, in addition to compensatory and punitive damages and other relief, to enjoin consummation of the transactions referred to or, if they have already been consummated, judgment declaring the transactions null and void, rescinding them, and directing that Mr. Riklis offer to Rapid and McCrory control of the acquired corporations and ownership of said real estate upon the same terms and conditions as he has obtained for himself.

Action by Unishops

In February 1974, an action was instituted in the Supreme Court of the State of New York, County of New York, by Unishops, Inc., and several of its wholly-owned subsidiaries, against Newberry, McCrory, Rapid, and former McCrory and Newberry executives. The complaint alleges, in essence, that to permit Newberry to sell three stores, plaintiffs cancelled license agreements, pursuant to which they operated men's and boys' wear departments in those stores, in reliance upon Newberry's agreement that those agreements would be replaced by new license agreements for four new locations. Plaintiffs charge that the amount of business done at two of the new locations has been materially less than represented by Newberry and that defendants have refused to enter into the other two promised agreements. McCrory and Rapid are alleged to be liable to plaintiffs by virtue of their ownership and control of Newberry and because they allegedly cooperated in Newberry's acts. Plaintiffs seek aggregate damages of $7,500,000 plus costs.

Litigation Related to the Disposition of the Retail Division of Anvil

In August 1976, an action was commenced in the Supreme Court of the State of New York, County of New York, by William B. Weinberger, allegedly a stockholder of Rapid, derivatively on behalf of Rapid. Named as defendants are Rapid, certain of its present and former directors, including Meshulam Riklis, Isidore A. Becker, Haim Bernstein, Harold S. Divine, Bernard Kobrovsky, Fred Korros, Leonard C. Lane, Samuel J. Levy, Pinhas Riklis, and Lorence A. Silverberg, and Natco Industries, Inc. ("Natco"), and Morton L. Olshan. The complaint alleges, in essence, that: (a) in 1972, Old Rapid through Glen Alden owned The B.V.D. Company, Inc. (now Anvil Brand, Incorporated—"Anvil"); (b) certain executive employees of Anvil formed Natco which purchased the retail division of Anvil from Old Rapid and Glen Alden for $16 million; (c) at the direction and insistence of Mr. M. Riklis, Natco agreed to pay a finder's fee to Mr. Olshan, consisting of an option to purchase shares of Natco's capital stock together with certain rights to receive more than $1 million in cash upon the cancellation of the option under certain circumstances, the right to purchase certain additional shares of Natco's capital stock, and a five-year consulting agreement with Natco at $75,000 per year; (d) the finder's fee was worth in the aggregate approximately $2 million; (e) the finder's fee was not earned by Mr. Olshan, but was paid to him as a long-time friend and business associate of Mr. M. Riklis; (f) the finder's fee rightfully belonged to Glen Alden as part of the purchase price paid by Natco for the retail division of Anvil; and (g) such sale was made for grossly inadequate consideration. The complaint seeks compensatory damages on behalf of Rapid in an amount equal to the value of the finder's fee and the alleged unjust enrichment of Natco and punitive damages against the individual defendants.

Litigation Relating to 1979 Exchange Offer

In response to an exchange offer (the "Exchange Offer") to common and preferred stockholders, which expired November 30, 1979, Rapid issued 2,671,790 shares of a new $3.00 redeemable preference stock (the "$3.00 Preference Stock") in exchange for 2,051,868 shares of Rapid Common Stock and shares of convertible preferred stock convertible into 619,922 shares of Rapid Common Stock.

On or about April 1, 1980, an action was instituted in the Court of Chancery of the State of Delaware by Benjamin M. Clasky, allegedly a stockholder of Rapid, on behalf of all stockholders of Rapid similarly situated and derivatively on behalf of Rapid. The complaint names as defendants Rapid, Meshulam Riklis, Isidore A. Becker, Harold S. Divine, Leonard C. Lane, Samuel J. Levy, Pinhas Riklis, Bernard Kobrovsky, Fred Korros, Lorence A. Silverberg, George V. Delson, Arie Genger and Mona R. Ackerman, each of whom was, at times relevant to the complaint, a member of Rapid's Board of Directors.

The complaint alleges that prior to August 16, 1979, Mr. M. Riklis, in concert with the other individual defendants, entered into a plan and scheme to increase Mr. M. Riklis' alleged domination and control of Rapid through Kenton by means of a recapitalization plan enabling him to prevent others from obtaining control of Rapid. In furtherance of such plan and scheme, Rapid was caused to issue a proxy statement dated September 17, 1979, for a meeting of stockholders to be held on October 16, 1979. At such meeting, Rapid stockholders would be asked to approve an amendment to Rapid's Certificate of Incorporation authorizing a new class of preference stock and, upon such approval, Rapid intended to issue a series of preference stock in connection with the Exchange Offer which was then contemplated.

The complaint further alleges that prior to the issuance of the aforesaid proxy statement, Rapid's Board of Directors had authorized a program of expansion of retail store operations which anticipated the opening of approximately 150 stores a year in various Rapid divisions and that the proxy statement failed to disclose such expansion program.

The complaint alleges that following the approval by Rapid's stockholders of the amendment to Rapid's Certificate of Incorporation, Rapid's Board of Directors authorized the Exchange Offer, fixed the designations, preferences and rights of the $3.00 Preference Stock and set the dividend rate thereon at $3.00 per share. The complaint further alleges that as a result of the Exchange Offer, Kenton's interest in Rapid was increased from 23.5% to 32% of Rapid's outstanding stock and, therefore, Mr. Riklis' control over Rapid was also increased.

The amendment to Rapid's Certificate of Incorporation and the consummation of the Exchange Offer are alleged not to have served a bona fide corporate purpose of Rapid, but were intended to benefit Mr. Riklis. As a consequence of the Exchange Offer, it is alleged that Rapid obligated itself to pay annual cumulative dividends of approximately $8,570,000, which exceeds by approximately $7,740,000, the cumulative dividends Rapid was obligated to pay prior to the Exchange Offer. The complaint alleges that the individual defendants, as members of Rapid's Board of Directors, violated their fiduciary duties to Rapid since they acted with the knowledge that no bona fide or corporate purpose would be served and a waste of Rapid's assets would occur if the Exchange Offer was consummated.

The complaint seeks preliminary and permanent injunctions of the Exchange Offer or, alternatively, the rescission of the Exchange Offer, an order requiring defendants to account for damages sustained by Rapid as a result of the acts and transactions alleged in the complaint, and an order awarding to plaintiff the costs and disbursements of the action including fees of attorneys and accountants.

Litigation Relating to Proposed Merger

On April 11, 1980, Rapid announced that it is considering submitting a proposal (the "Merger Proposal") to its stockholders. The Merger Proposal is described in Note 24 to the Financial Statements.

On or about April 17, 1980, an action was instituted in the Court of Chancery of the State of Delaware by Sam Wietschner, allegedly a stockholder of Rapid, on behalf of all stockholders of Rapid similarly situated. The complaint names as defendants, Rapid, Kenton, American Financial Corporation and Meshulam Riklis.

The complaint alleges that the Merger Proposal is designed for the sole purpose of eliminating the minority stockholders of Rapid and allowing the named defendants and their affiliates to acquire all of Rapid. The complaint alleges that the terms of the Merger Proposal will force the minority stockholders to exchange their shares for a new Rapid debenture and that the terms are grossly unfair to the minority stockholders and are unduly favorable to the named defendants and their affiliates.

The complant further alleges that defendants and their affiliates, as majority stockholders of Rapid, have a fiduciary relationship to the minority stockholders which duty they will have breached if the Merger Proposal is effectuated.

The complaint seeks temporarily and permanently to enjoin the Merger Proposal; to require defendants, jointly and severally, to account to plaintiff and the class represented by him for profits realized by defendants; and an award to plaintiff of his costs and expenses of the action including reasonable attorneys' fees. Plaintiff is seeking expedited discovery and has applied to the Court for a preliminary injunction restraining the named defendants and their affiliates from taking any action to effect the Merger Proposal pending the trial of the action. The return date of plaintiff's application is April 28, 1980.

Asbestosis Litigation

Rapid and Glen Alden Corporation, a predecessor of Rapid, together with other corporations which are allegedly miners, manufacturers and distributors of asbestos or products containing asbestos, are defendants in a number of actions filed in several states alleging injuries to the health, or wrongful death, of persons exposed to asbestos or products containing asbestos. There are presently pending 91 actions against Rapid or Glen Alden in which an aggregate of approximately 376 persons are seeking compensatory and punitive damages. Two of the actions have been brought purportedly on behalf of numerous individuals who are alleged to be members of the same class. In the only one of such actions in which a determination has been made as to the propriety of permitting the action to be maintained as a class action, class action status has been denied. It is possible that additional actions will be commenced in the future.

Neither Rapid nor Glen Alden is or ever was directly involved in the mining, manufacture or distribution of asbestos or products containing asbestos. In 1966, Glen Alden acquired 28% of the outstanding shares of The Philip Carey Manufacturing Company, an Ohio corporation ("Old Carey"). Since its incorporation in 1888, Old Carey had been engaged, among other things, in the manufacture of asbestos fibers and since 1915, through a Canadian subsidiary, it owned and operated asbestos mines and mills.

On June 1, 1967, Old Carey was merged into Glen Alden and the assets, properties and businesses of Old Carey were contemporaneously transferred to a newly-formed corporation called The Philip Carey Manufacturing Company, an Ohio corporation ("New Carey") which was then a wholly-owned subsidiary of Glen Alden. As part of the June 1, 1967 transaction, New Carey contractually assumed (the "Indemnification Agreement") all of the liabilities of Old Carey to which Glen Alden might become subject as a result of the aforesaid merger. From and after June 1, 1967, the asbestos business formerly conducted by Old Carey was carried on by New Carey. In April 1970, New Carey merged with Briggs Manufacturing Company, in which Glen Alden then had a 48% interest, to form Panacon Corporation ("Panacon"). On April 17, 1972, Glen Alden sold all of its shares of Panacon, representing approximately 89% of the outstanding shares of Panacon, to The Celotex Corporation ("Celotex"), a wholly-owned subsidiary of Jim Walter Corporation. Thereafter, Panacon was merged into Celotex.

In each of the asbestos actions in which Rapid or Glen Alden is a party, each has asserted or will assert claims for indemnification against Celotex as the successor in interest to New Carey and Panacon under the Indemnification Agreement. To date, in certain of the actions in which such claims have been made, Celotex has denied Rapid's and Glen Alden's claims and in the remainder of such actions, Celotex has been deemed to have denied such claims.

To date none of the asbestos cases in which Rapid or Glen Alden is a defendant has been tried and neither Rapid nor Glen Alden nor any insurance carrier on behalf of either has been required to pay any sums in connection with any of the asbestos actions which have been settled. Should any of the actions result in judgments against Rapid, Rapid believes that it would be entitled to and would seek indemnification from Celotex under the Indemnification Agreement.

To the extent that any judgments which might be entered against Rapid are not satisfied by Celotex under the provisions of the Indemnification Agreement, Rapid would seek indemnification from its insurance carriers and those which had insured Old Carey and New Carey.

Since 1966, when Glen Alden first acquired its interest in Old Carey, primary liability coverage for bodily injury has been maintained by Rapid or Glen Alden having aggregate annual maximum policy limits in the sum of $3,000,000. In addition to primary insurance, Rapid and Glen Alden have maintained excess liability insurance coverage for such years substantially over the amount of the primary insurance coverage.

Rapid believes that Old Carey maintained some amounts of primary liability coverage for bodily injury prior to 1966, and since at least 1957. The policy limits of such insurance are presently unknown to Rapid.

While the aggregate amount of damages sought to be recovered by plaintiffs in the actions in which Rapid or Glen Alden is a defendant is substantial, the actual amounts of various settlements of actions in which Rapid or Glen Alden was not required to contribute to the settlement fund have been significantly less than the amounts demanded in plaintiffs' complaints, and payment of the amounts of the settlements has been divided among various of the settling defendants or their insurance carriers.

Litigation Related to Employment Matters

In September, 1979, an action was instituted in the United States District Court for the Northern District of Illinois, Eastern Division, by Alvin Hayes and others against Schenley Affiliated Brands Corp., a subsidiary of Schenley, and others. Each of the plaintiffs allege that he is presently or was previously employed by the defendants. The complaint alleges, in essence, that the defendants have violated certain provisions of the Civil Rights Act of 1964 by discriminating against plaintiffs in job classifications and job assignments because of their race. In addition, the complaint alleges that the defendants have maintained policies and practices with respect to, among other things, wages, fringe benefits and other terms and conditions of employment, which have operated to deny equal opportunities to plaintiffs because of their race. The complaint seeks a declaratory judgment that defendants' acts set forth in the complaint violated plaintiffs' rights under the Civil Rights Act of 1964 and a permanent injunction enjoining the defendants from engaging in any employment policy or practice which discriminates against plaintiffs on the basis of race. The complaint further seeks appropriate back pay and reimbursement for lost wages, social security, experience, training opportunities and other benefits, and other affirmative relief, including an affirmative action program designed to eliminate the effects of the discriminatory practices set forth in the complaint. In addition, the complaint seeks compensatory damages of $25,000,000 and punitive damages of $25,000,000, and costs and disbursements in connection with the action, including counsel fees.

Additional Litigation, etc.

Various other legal proceedings are pending against Rapid and its subsidiaries, involving miscellaneous causes of action arising from their businesses, including, but not limited to, income tax matters, treble damage actions under the antitrust laws, commercial cases arising out of agreements or alleged agreements, personal injury and property damage matters, labor disputes, and other actions. A proceeding is pending before the Environmental Protection Agency involving Schenley (see "Alcoholic Beverages—*Environment*" in Item 1).

Additionally, Rapid and its subsidiaries are the subject of various other governmental proceedings and investigations by federal and state regulatory agencies having jurisdiction over aspects of the business and affairs of Rapid and its subsidiaries.

Item 6. *Increases and Decreases in Outstanding Securities and Indebtedness.*

(a) The following table gives certain information with respect to equity securities of Rapid outstanding during the year ended January 31, 1980. For information regarding certain McCrory securities which are exercisable for or convertible into Rapid Common Stock see Note 8 to Financial Statements.

Title of class		Number of shares
Class B Senior Cumulative Convertible ($3) Preferred Stock:		
Balance, February 1, 1979		97,355
Decrease:		
Various dates—shares converted to Common Stock		(15,118)
November 1979—tendered pursuant to exchange offer		(20,248)
Balance, January 31, 1980		61,989
$3.15 Cumulative Convertible Preferred Stock:		
Balance, February 1, 1979		5,553
Decrease:		
Various dates—shares converted to Common Stock		(1,252)
November 1979—tendered pursuant to exchange offer		(404)
Balance, January 31, 1980		3,897
$2.25 Cumulative Convertible Junior Preferred Stock:		
Balance, February 1, 1979		228,225
Decrease:		
Various dates—shares converted to Common Stock		(16,511)
November 1979—tendered pursuant to exchange offer		(170,699)
Balance, January 31, 1980		41,015
$3.00 Redeemable Preference Stock:		
Issued—November 1979—pursuant to exchange offer(2)		2,671,790
Balance, January 31, 1980		2,671,790
Common Stock:		
Balance, February 1, 1979:		
Issued	7,155,094	
Held by McCrory and in treasury(1)	(81,081)	
Outstanding		7,074,013
Increase (decrease) during the year:		
Various dates—shares issued upon conversion of Preferred Stocks(2)		111,642
Various dates—odd lot purchases		(25,720)
June 1979—McCrory merger appraisal settlement		(9,896)
November 1979—tendered pursuant to exchange offer		(2,051,868)
Balance, January 31, 1980		5,098,171
		Number of warrants
Redeemable Common Stock Purchase Warrants—expiring in May 1994:		
Balance, February 1, 1979:		
Issued	5,586,539	
Held by McCrory (cancelled during 1979)	(155,368)	
Balance, January 31, 1980		5,431,171

(b) The following table gives certain information with respect to debt securities and indebtedness of Rapid outstanding during the year ended January 31, 1980. For additional information regarding such debt securities and indebtedness, see Note 5 to Financial Statements.

		Principal amount
7½% Sinking Fund Subordinated Debentures, due 1985:		
Balance, February 1, 1979:		
Issued	$ 68,032,158	
Held by Rapid(3)	(23,222,397)	
Outstanding		$ 44,809,761
Decrease during the year:		
August through November 1979—odd-lot purchases		(334,824)
Balance, January 31, 1980:		
Issued	62,798,833	
Held by Rapid	(18,323,896)	
Outstanding		$ 44,474,937
6% Sinking Fund Subordinated Debentures, due 1988:		
Balance, February 1, 1979 and January 31, 1980:		
Issued	$142,994,900	
Held by Schenley	(40,881,000)	
Outstanding		$102,113,900
7% Subordinated Debentures, due 1994 (1969 Issue):		
Balance, February 1, 1979 and January 31, 1980		$ 51,765,664
7% Subordinated Debentures, due 1994 (1972 Issue):		
Balance, February 1, 1979 and January 31, 1980		$ 66,276,900
12% Sinking Fund Subordinated Debentures, due 1999:		
Balance, February 1, 1979 and January 31, 1980		$ 17,926,261
10¾% Sinking Fund Subordinated Debentures, due 2003:		
Balance, February 1, 1979 and January 31, 1980		$153,140,550
10¾% Sinking Fund Subordinated Debentures, due 2004:		
Balance, February 1, 1979 and January 31, 1980		$ 5,870,250
11% Sinking Fund Subordinated Debentures, due 2005:		
Balance, February 1, 1979 and January 31, 1980		$ 15,509,600
Notes Payable to Banks and the FDIC due in varying annual payments to 1983:		
Balance, February 1, 1979		$ 79,483,396
Decrease—May 1979—prepayment of principal		(79,483,396)
Balance, January 31, 1980		$ —
Sundry Notes and Mortgages, due to 1996:		
Balance, February 1, 1979		$ 4,965,506
Decrease—various dates—principal payments		(252,771)
Balance, January 31, 1980		$ 4,712,735

(1) At February 1, 1979, McCrory held 76,306 shares (which were distributed to Rapid as a dividend) and Rapid held 4,775 shares in treasury. These shares were cancelled during the year.
(2) Exemption from registration for the issuance of these securities is claimed pursuant to Section 3(a)(9) of the Securities Act of 1933.
(3) Held for sinking fund requirements ($5,233,325 delivered to Trustee in March 1979).

For a description of the exchange offers referred to above see Notes 6 and 7 to Financial Statements.

Item 7. ***Changes in Securities and Changes in Security for Registered Securities.***

Not applicable.

Item 8. ***Defaults Upon Senior Securities.***

Not applicable.

Item 9. ***Approximate Number of Equity Security Holders.***

The number of holders of record on March 31, 1980 of each class of equity securities of Rapid is set forth in the following table:

Title of class	Number of holders of record
Class B Senior Cumulative Convertible ($3) Preferred Stock..	1,721
$3.15 Cumulative Convertible Preferred Stock	208
$2.25 Cumulative Convertible Junior Preferred Stock	413
$3.00 Redeemable Preference Stock	1,866
Common Stock	20,892
Redeemable Common Stock Purchase Warrants, expiring in May 1994	25,715

Item 10. ***Submission of Matters to a Vote of Security Holders.***

Not applicable.

Item 11. ***Indemnification of Directors and Officers.***

Reference is made to Item 9 of the Annual Report on Form 10-K of Glen Alden (Rapid's former name) for the year ended December 31, 1970 and to Article VIII of Rapid's By-Laws, set forth as Appendix III to its Notice and Proxy Statement, dated October 6, 1972, for certain information with respect to indemnification of Rapid's directors and officers.

Item 12. ***Financial Statements, Exhibits filed, and Reports on Form 8-K.***

(a) 1. Financial Statements.

See accompanying Table of Contents for Financial Statements and Index on page 76 for Supplemental Schedules.

2. Exhibits.

Exhibit A—Computation of Net Income Per Common Share.

(b) Reports on Form 8-K.

During Rapid's fourth quarter a Report on Form 8-K dated November 1, 1979 was filed reporting "Other Materially Important Events".

PART II

Item 13. ***Security Ownership of Certain Beneficial Owners and Management.***

(a) The following table sets forth certain information with respect to persons known by management to own beneficially more than 5% of any class of voting securities of Rapid, as of April 15, 1980:

Title of Class	Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
Common Stock	Kenton Corporation 711 Fifth Avenue New York, N. Y. 10022	1,680,407(1)	32.9%
	American Financial Corporation(1)(2) One East Fourth Street Cincinnati, Ohio 45202	755,200	14.8%
	Maurice A. Halperin 1290 Avenue of the Americas New York, N. Y. 10019	358,400	7.0%
$2.25 Cumulative Convertible Junior Preferred Stock(3).....	Philip B. Robinson Box 2037 5700 Fremont Avenue Ventnor, N. J. 08406	15,927	39.6%
$3.15 Cumulative Convertible Preferred Stock (4)	Bessie F. Warshawsky c/o F. Buckner 5255 Collins Avenue Miami Beach, Fla. 33140	318	8.4%
	Joseph L. Conrad, Jr. Box 1644 Parkview Station Kinston, N. C. 28501	202	5.3%

(1) Of the aggregate number of shares of Rapid Common Stock purchased by Kenton during 1977 and 1978, 1,137,919 shares were purchased from Meshulam Riklis, Chairman of the Board of Rapid and 162,488 shares were purchased from Isidore A. Becker, a Vice Chairman of the Board of Rapid. Substantially all of Kenton's shares of Rapid Common Stock are pledged with financial institutions (including American Financial Corporation and its subsidiaries) to secure certain indebtedness of Kenton. Mr. Becker has a junior lien on a portion of the shares of Rapid Common Stock purchased from him to secure a portion of Kenton's indebtedness to him which arose out of the purchase of his shares. (See Item 4 and Note 24 to Financial Statements above.)

(2) Filings by American Financial Corporation and its subsidiaries with the Securities and Exchange Commission indicate they own approximately 14.4% of the outstanding shares of Kenton common stock. In addition, American Financial Corporation and its subsidiaries have the right through the exercise of warrants and pursuant to certain contractual arrangements to own approximately 25.2% of the aggregate shares of Kenton common stock issued or reserved for issuance.

(3) Each share is convertible into 3.2 shares of Rapid Common Stock.

(4) Each share is convertible into 3.877 shares of Rapid Common Stock.

(b) The following table sets forth information with respect to each class of equity securities of Rapid beneficially owned by each director and by all directors and officers of Rapid, as a group, as of April 15, 1980:

Name	Rapid $3.00 Preference Stock: Number of Shares Beneficially Owned	Percent	Rapid Common Stock: Number of Shares Beneficially Owned	Percent
Mona R. Ackerman	25,927	1.0%	—	—
Isidore A. Becker	56,640(2)	2.1%	40,100(1)	.8%
George V. Delson	1,000(3)	*	—	—
Harold S. Divine	25,325(4)	.9%	2,500(1)(4)	*
Arie Genger	—	—	400	*
Fred Korros	2,000	*	1,051	*
Leonard C. Lane	11,094(2)(5)	.4%	184,647(1)(5)	3.6%
Samuel J. Levy	12,050	.5%	10,000	.2%
Meshulam Riklis	106,105(2)(6)	4.0%	22,500(1)(6)	.4%
Pinhas Riklis	—	—	3,000	*
Lorence A. Silverberg	33,549(7)	1.3%	—	—
All directors and officers as a group	273,790	10.2%	274,698(1)	5.2%

* Negligible.

(1) Includes common stock purchase warrants exercisable for Rapid Common Stock at $35 per share through May 15, 1994 and redeemable by Rapid at $20 per warrant, held as follows: Isidore A. Becker (40,100), Harold S. Divine (2,500), Leonard C. Lane (56,700), Meshulam Riklis (22,500), and all directors and officers, as a group (131,800).

(2) Excludes (a) 1,000 shares of Rapid $3.00 Preference Stock owned by a foundation of which Mr. Becker is one of three trustees; (b) 6,000 shares of Rapid $3.00 Preference Stock owned by the Rapid-American Foundation, Inc., of which Messrs. Becker, Lane, and Riklis are three of the four directors; and (c) 6,230 shares of Rapid $3.00 Preference Stock owned by the McCrory Foundation, Inc., of which Messrs. Becker, Lane, and Riklis are three of the four directors.

(3) Excludes 300 shares of Rapid $3.00 Preference Stock owned by members of Mr. Delson's family, as to which Mr. Delson disclaims beneficial interest.

(4) Excludes (a) 158 shares of Rapid Common Stock held as custodian for his sons, (b) 463 shares of Rapid $3.00 Preference Stock owned by the H. S. Divine Foundation, of which Mr. Divine is president, and (c) 500 shares of Rapid $3.00 Preference Stock owned by the H. S. Divine, Inc. Defined Benefit Plan, of which Mr. Divine is a trustee.

(5) Excludes 19,234 shares of Rapid Common Stock and 3,250 shares of Rapid $3.00 Preference Stock owned by members of Mr. Lane's immediate family, including trusts for the benefit of his children, as to all of which Mr. Lane disclaims beneficial ownership.

(6) Excludes (a) 4,915 shares of Rapid Common Stock, 33,500 shares of Rapid $3.00 Preference Stock and 25,000 Rapid warrants owned by members of Mr. Riklis' immediate family as to which Mr. Riklis disclaims beneficial ownership; and (b) 50 shares of Rapid Common Stock issuable upon exercise of 100 common stock purchase warrants of McCrory, which are exercisable for shares of Rapid Common Stock at the rate of two warrants and $45 for each share through March 15, 1981.

(7) Excludes 25 shares of Rapid $3.00 Preference Stock owned by Mr. Silverberg's wife, as to which Mr. Silverberg disclaims beneficial ownership.

(c) To secure its obligations, Kenton has granted security interests in substantially all of the shares of Rapid Common Stock owned by it. Kenton is entitled to vote the pledged shares (see Item 13(a) above).

Item 14. ***Directors and Executive Officers of Rapid.***

(a) and (b) The following table sets forth, as of April 15, 1980, the name and age of each director and/or executive officer of Rapid, all present postions and offices with Rapid held by such person and periods during which each has served as a director and/or executive officer:

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Mona R. Ackerman	34	Senior editor, Jove Books, since March 1979; editor, Dell Publishing Company, 1978-1979; story editor, associated with Frank Yablans Productions (motion picture producer), 1975-1977; prior thereto was not engaged in business	1976	—
Isidore A. Becker(a)	54	Chairman of the Board and Chief Executive Officer of Schenley for more than the past five years, and Vice Chairman of the Boards of Rapid and McCrory	1963	1961
George V. Delson(b)	58	Chairman of the Audit Committee, C.P A., senior partner of George V. Delson Associates, tax and financial consultants from January 1976; prior thereto Executive Vice President of Cantor Fitzgerald & Co., Inc., investment bankers, from January 1972 through December 1975	1963-1971 1978	—
Harold S. Divine(a)	59	Vice Chairman of the Board of Rapid since May 1977; prior thereto sales and marketing consultant for more than five years	1956-1961 1971-1973 1976	1977
Arie Genger	34	Vice President and Executive Assistant to the Chairman of the Board of Rapid since June 1976; President and Chief Operating Officer of McCrory since March 1980; Executive Vice President of McCrory from May 1977 to March 1980, and a director of McCrory since August 1977; prior thereto Assistant to the Chairman of the Board of Rapid from January 1972 to June 1976	1978	1976
Seymour Kleinman(c)	61	Senior partner, law firm of Golenbock and Barell and Lecturer in Finance and Secured Transactions, Columbia University Law School, for more than the past five years	1979	—
Bernard Kobrovsky(b)(d)	68	Private investor for more than the past five years	1960	—
Fred Korros(d)	73	Account executive, Bache Halsey Stuart Shields Incorporated (investment securities), for more than the past five years and Chairman of the Salary and Compensation Committee	1969	—
Leonard C. Lane(a)	61	Chairman of the Executive Committee and Executive Vice President of Rapid for more than the past five years and Chairman of the Board of ILC since May 1977	1960	1965
Samuel J. Levy(a)(b)	72	Vice Chairman of the Executive Committee of Rapid and Chairman of the Board and Chief Executive Officer of Southern Packaging Design Corp. (woven labels), for more than the past five years; a director of Sun Chemical Corporation	1961	—
Daniel J. Manella	54	Chairman of the Board of Kenton since September 1978; Chairman of the Board of the Botany Shirt Division since February 1979; prior thereto President and Chief Executive Officer of The Botany Shirt Company from 1975 through January 1979	1980	—
Dan Palmon(c)	38	Assistant Professor of Accounting, New York University Graduate School of Business, for the past five years	1979	—
Meshulam Riklis(a)	57	Chairman of the Board and Chief Executive Officer of Rapid, Vice Chairman of the Board of McCrory, and a director of AITS, Inc. (hotel and casino operation in Las Vegas, Nevada), for more than the past five years	1955	1955
Pinhas Riklis(d)	84	Private investor from 1977; prior thereto Chairman of the Board of Garay & Co., Inc. (ladies handbags and belts), for more than five years	1968	—

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Lorence A. Silverberg(a)	66	President and Chief Operating Officer of Rapid since March 1980; Executive Vice President of Rapid from June 1977 to March 1980; Chairman of the Board of McCrory since December 1979 and Chief Executive Officer of McCrory since May 1977; President of McCrory from May 1977 to March 1980; prior thereto Executive Vice President of McCrory from 1974	1957	1964-1972 1977
Leo D. Stone(c)	66	Lecturer in Finance, University of South Florida, from September 1974; prior thereto Professor of Finance at the Ohio State University	1979	—
Helen H. Updike(c)	39	Assistant Professor of Economics, Hofstra University since 1978; visiting Assistant Professor of Economics, SUNY, Stony Brook, 1977 and 1978; Assistant Professor of Economics, University of Massachusetts from 1975 to 1977	1979	—
Bernard J. Blaney	56	Vice President and Treasurer of Rapid since 1976 and prior thereto President of Kenton (then engaged in retailing) from 1974	—	1976
Michael J. Magenheim	38	Controller of Rapid since 1976 and Assistant Treasurer of Rapid for more than the past five years	—	1972
Stuart H. Aarons	69	Secretary of Rapid for more than the past five years	—	1972

(a) Member of the Executive Committee.

(b) Member of the Audit Committee.

(c) Member of the Transaction Review Committee.

(d) Member of the Salary and Compensation Committee

There are no family relationships among any of the directors of Rapid, except that Pinhas Riklis is the father and Mona R. Ackerman is a daughter of Meshulam Riklis.

The term of office of each director expires at the next annual meeting of Rapid's stockholders or when such director's successor is elected and has duly qualified. There are no arrangements or understandings between any of the directors of Rapid and any other person pursuant to which he was selected as a director of Rapid.

Each of the executive officers of Rapid holds his office at the pleasure of the Board of Directors. There are no arrangements or understandings between any of the executive officers of Rapid and any other person pursuant to which he was selected as an executive officer of Rapid.

Item 15. ***Management Remuneration and Transactions.***

Remuneration

The following table sets forth for the fiscal year ended January 31, 1980 the remuneration of the five most highly compensated executive officers and directors and the remuneration of all directors and officers as a group.

		Cash and cash-equivalent forms of remuneration		
Name of individual or number of persons in group	Capacities in which served	Salaries, fees, directors' fees, commissions, and bonuses	Securities or property, insurance benefits or reimbursement, personal benefits(1)	Aggregate of contingent forms of remuneration(2)
Meshulam Riklis	Chairman of the Board, President and Chief Executive Officer of Rapid and a Vice Chairman of McCrory	$ 683,190	$ 12,535	$ 39,132
Lorence A. Silverberg	President and Chief Executive Officer of McCrory and Executive Vice President of Rapid	525,000	27,778	5,969
Isidore A. Becker	Chairman of the Board and Chief Executive Officer of Schenley and a Vice Chairman of the Board of Rapid	525,000	16,433	23,100
Leonard C. Lane	Executive Vice President of Rapid and Chairman of the Board of ILC	480,000	21,055	40,008
Karl L. Margolis	President and Chief Executive Officer of Lerner	397,000	6,209	60,000
All directors and officers as a group (20)		3,700,358	130,496	193,241

(1) Primarily medical and insurance benefits.

(2) The amounts shown are primarily for contractual retirement allowance expense and do not include contributions to the defined benefit pension plans of Rapid and its subsidiaries. The amount of contributions (including accruals) to such plans in any year with respect to particular persons cannot readily be calculated by the actuaries for such plans. The total contributions to such plans for the calendar year 1979 (including total accruals) amounted to approximately 6.5% of the total remuneration of the participants covered by such plans. Of the 20 directors and officers as a group, eight participate in pension plans sponsored by subsidiaries of Rapid. Messrs. Riklis, Silverberg and four others participate in a McCrory plan, Mr. Becker participates in a Schenley plan and Mr. Margolis participates in a Lerner plan. The following table sets forth the estimated annual benefits payable upon normal retirement to persons in specified remuneration and years-of-service classifications. The retirement benefits are based upon retirement at age 65 under current benefit formulas and payment of a single-life annuity to the employee, using the 1980 level of Social Security benefits.

Covered Earnings During Each Year of Employment	Years of Service and Annual Pension Plan Benefits											
	10 Years			20 Years			30 Years			40 Years		
	(In Thousands)											
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
$100,000	$14	$16	$13	$25	$ 32	$29	$25	$ 48	$29	$25	$ 63	$29
200,000	25	33	26	25	66	59	25	98	59	25	110	59
300,000	25	50	39	25	100	75	25	110	75	25	110	75
400,000	25	67	52	25	110	75	25	110	75	25	110	75
500,000	25	84	65	25	110	75	25	110	75	25	110	75

(1) McCrory plan.

(2) Schenley plan.

(3) Lerner plan.

The following table sets forth the estimated annual retirement benefits payable to the persons and group specified in the remuneration table above:

Name of individual or number of persons in group	Estimated annual benefits payable upon retirement
Meshulam Riklis	$115,000
Isidore A. Becker	115,000
Lorence A. Silverberg	100,000
Karl L. Margolis	67,000
Leonard C. Lane	60,000
All directors and officers as a group (20)	615,000

In order to facilitate the performance of their business duties, Rapid provides certain of its officers and directors with the use of corporate owned or leased automobiles, aircraft and hotel accommodations and provides for certain club memberships.

Employment Agreements

The descriptions which follow of the employment agreements with Messrs. Riklis, Becker, and Lane reflect the modifications required by a Court-approved settlement in a stockholders' derivative action (see Item 5 "Legal Proceedings—*Litigation Related to Compensation and Other Matters*").

Meshulam Riklis

Effective November 20, 1977, Rapid renewed its employment contract with Mr. Riklis, as Chief Executive Officer, for an additional period of five years. The contract provides for an annual salary of $375,000, plus incentive compensation at the rate of 1% of Rapid's Consolidated After-Tax Operating Earnings (as defined) in each fiscal year, in excess of $20,000,000, up to a maximum of $100,000,000 per year. Such $375,000 annual salary is payable in any event, even if Mr. Riklis' employment is terminated by death, disability or discharge with or without cause. This contract superseded all previous contracts, with the exception of a contract with McCrory, which is described below. The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Riklis' employment at the rate of $100,000 per year, and upon Mr. Riklis' death, payments will continue to his surviving widow, if any, at the rate of $50,000 per year for her life; any pension plan benefits are deducted, and payments are subject to other limits and restrictions on competition with Rapid, are reduced by the receipt of disability payments and are subject to Mr. Riklis' availability to render certain advisory services to Rapid. In the

event of the termination of his employment because of his incapacity, Mr. Riklis is to receive disability benefits at the rate of $100,000 per year for life, less any amounts earned from other employment; in the event of his death, his widow or his surviving children or his estate is to receive death benefits of $500,000, plus one year's incentive compensation (in addition to the incentive compensation earned by, but not yet paid to, Mr. Riklis prior to his death) payable over a 10 year period.

On April 1, 1965, McCrory entered into an employment contract with Mr. Riklis, then its Chairman of the Board and President, which provided, *inter alia,* for the payment of a retirement allowance for life beginning with the later of (1) Mr. Riklis' 55th birthday, or (2) the termination of his employment. Such allowance is to be paid in equal monthly installments at the rate of $15,000 per year; any pension plan benefits shall be deducted, and payments are subject to other limits and restrictions on competition with McCrory and receipt of disability payments. Effective August 1, 1970, Mr. Riklis' employment under such contract was terminated; only his retirement rights remain in effect. It is a condition to the payment of Mr. Riklis' retirement rights that he shall be available to render advisory services to McCrory if requested by the Board of Directors of McCrory, subject to certain limitations. In 1974, Mr. Riklis agreed to relinquish his right to receive any retirement allowance from McCrory, so long as he continues to be employed and paid by Rapid and Rapid continues to have a substantial interest in McCrory.

Lorence A. Silverberg

Mr. Silverberg, Chairman of the Board of Directors and Chief Executive Officer of McCrory and President and Chief Operating Officer of Rapid, is employed under a five year employment contract with McCrory effective February 1, 1978, as amended on March 4, 1980, which is automatically renewable for an additional period of five years, unless six months' prior notice of intention not to renew is given by either party. The contract provides for (1) an annual salary of $350,000; (2) incentive compensation equal to 1% of the consolidated income from continuing operations of McCrory (as defined) in excess of $25,000,000, commencing with the fiscal year beginning February 1, 1978 up to a maximum of 50% of Mr. Silverberg's base salary (presently $350,000) for such year; and (3) a retirement allowance of $100,000 per year, payable monthly (the "Retirement Sum"), until Mr. Silverberg's death, commencing upon the termination of his employment. In the event that Mr. Silverberg becomes incapacitated for a period of 11 consecutive months, his employment may be terminated. Mr. Silverberg's right to receive the Retirement Sum is extinguished if Mr. Silverberg, within one year of termination of employment, without McCrory's consent, engages, directly or indirectly, in any activity competitive with the business of McCrory. In the event that Mr. Silverberg dies while he is entitled to receive the Retirement Sum, Mr. Silverberg's widow is to receive 50% of the Retirement Sum during her lifetime. Certain pension plan benefits and disability payments would be deducted from the Retirement Sum. In accordance with the terms of the contract, McCrory is required to keep in effect $300,000 of life insurance on Mr. Silverberg's life until termination of his employment and subject to certain conditions, thereafter. McCrory has agreed to pay, on Mr. Silverberg's behalf, all premiums on the policies. The contract also provides that Mr. Silverberg's group life insurance benefits will not be decreased by reason of his exceeding the age of 65. In addition, in the event of Mr. Silverberg's death, his widow or his estate is to receive one year's incentive compensation (in addition to the incentive compensation earned by, but not paid to, Mr. Silverberg prior to his death) payable over a five year period. The contract further provides that the deferred compensation previously earned by Mr. Silverberg shall be fixed at the amount of $91,319 and that such amount shall be paid in 60 equal monthly installments following the termination of his employment. Mr. Silverberg also has been receiving the sum of $3,000 quarterly from McCrory since July 1972, pursuant to the terms of a prior employment agreement, and will continue to receive such payments until April 1, 1983.

Isidore A. Becker

Effective as of August 1, 1975, Mr. Becker, Chairman of the Board and Chief Executive Officer of Schenley, entered into a five-year employment contract with Schenley which was automatically renewed for an additional period of five years ending July 31, 1985. The contract superseded all other employment contracts between Mr. Becker and Rapid or McCrory. The contract provides for an annual salary of

$350,000 per annum and has no provision for deferred compensation. Effective October 19, 1978, the contract was amended to provide for incentive compensation at the rate of 5% of Schenley's annual Operating Profits (as defined), in each fiscal year commencing February 1, 1978, in excess of $53,000,000, up to a maximum of one-half of Mr. Becker's annual salary (presently $350,000). The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Becker's employment at the rate of $115,000 per year; upon Mr. Becker's death, the retirement payments will continue to his surviving widow, if any, at the rate of $57,500 per year for her life. Any pension plan benefits are deducted from these retirement payments. The payments to Mr. Becker are subject to his availability to render advisory services to Schenley and are reduced by receipt of disability payments. In the event of the termination of Mr. Becker's employment because of his incapacity, he is to receive disability benefits at the rate of $75,000 per annum for life. Additionally, his widow or his estate is to receive payments of $375,000, payable over a 10 year period, after his death.

Leonard C. Lane

Mr. Lane, Executive Vice President and a director of Rapid, is employed as a senior executive officer under an employment contract with Rapid which was renewed for a period of five years effective February 1, 1979, and provides for an annual salary of $240,000. Effective October 19, 1978, the contract was amended to provide for incentive compensation in each year, commencing January 1, 1978, to the extent of (i) 10% of the annual Operating Profits (as defined) of ILC, in excess of $885,544, and commencing January 1, 1979 (ii) 2½% of the Depreciation (as defined) of ILC Services, the equipment leasing division of ILC, up to a maximum of Mr. Lane's annual salary (presently $240,000). The contract also provides for the payment of a retirement allowance for life following the termination of his employment at the rate of $60,000 per year; certain pension plan benefits are deducted, and payments are subject to other limits and restrictions on competition with Rapid, and are reduced by receipt of disability payments. As a condition to such retirement payments, Mr. Lane must be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Lane forfeits his retirement benefits if, within one year after termination of employment, he engages directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event that Mr. Lane becomes incapacitated for 11 consecutive months, Mr. Lane's employment may be terminated, in which event, he is to receive disability benefits at the rate of $60,000 per year for life, less any amounts earned from other employment; in the event of his death, his widow or his surviving children, if any, or his estate is to receive death benefits of $335,000, payable over a 10 year period. Mr. Lane is authorized to devote a reasonable amount of business time to his personal investments and to consultation in the public or private educational field. Under the contract, Mr. Lane has earned an aggregate of $336,250 in deferred compensation as of January 31, 1980. Pursuant to the settlement of a stockholders' derivative action (see Item 5 "Legal Proceedings—*Litigation Related to Compensation and Other Matters*"), Mr. Lane relinquished the right to $45,000 in annual deferred compensation under the contract for a five year period commencing April 1978.

Karl L. Margolis

Mr. Margolis, Chairman of the Board and Chief Executive Officer of Lerner, is employed under a five year employment contract with Lerner expiring March 15, 1982, at an annual salary of $225,000 and a defined percentage of Lerner's aggregate executive bonus fund not to exceed his then annual salary. If death occurs during the term of the contract, Lerner shall pay to his designated beneficiaries 125% of his then annual salary, less amounts defined in the contract. In the event of disability for a period of at least 11 consecutive months, Lerner may terminate the contract and Mr. Margolis is to receive $2,000 per month, less amounts defined in the contract, until his 65th birthday. Lerner shall pay Mr. Margolis a supplemental retirement of $2,917 monthly for life commencing at age 65 and at his death, $1,458 per month to his wife, if living, for her lifetime.

Harold S. Divine

Mr. Divine, a Vice Chairman of the Board of Rapid, is employed as a senior executive officer under a five year employment contract with McCrory effective July 1, 1977, as amended as of July 1, 1979, which is automatically renewable for an additional period of five years unless six months' prior notice of intention not to renew is given by either party, which provides for an annual salary of not less than $240,000. During the year ended January 31, 1980, Mr. Divine earned a salary and bonus of $325,500. The contract also provides for the payment of an annual retirement allowance for life of $55,000 if Mr. Divine retires on or after June 30, 1982, the initial expiration term of the contract, or $70,000 if he retires on or after June 30, 1987, the expiration of the renewal term of the contract. Upon Mr. Divine's death the retirement payments will continue to his surviving widow, if any, at a rate equal to 50% of his retirement allowance. Certain pension plan benefits and disability payments would be deducted from the retirement allowance. If Mr. Divine becomes incapacitated for a period of 11 consecutive months, the contract provides for disability payments of up to approximately $60,000 per year depending on various conditions. Additionally, in the event of Mr. Divine's death an amount equal to 125% of his annual base salary at the time of his death would be payable over a 10 year period to his widow or to his estate. Mr. Divine is authorized to devote a reasonable amount of business time to his personal business.

Arie Genger

Mr. Genger, President, Chief Operating Officer and a director of McCrory and a Vice President and director of Rapid, entered into a contract with McCrory, effective March 1, 1977, as amended on March 4, 1980, to be employed as an executive through February 28, 1982, at an annual salary of not less than $150,000. During the year ended January 31, 1980, Mr. Genger earned a salary and bonus of $235,000. In the event Mr. Genger's employment is terminated because of his incapacity, he is to receive $50,000 per year for life, which will be adjusted for cost of living increases and reduced by any payments under McCrory's disability plan. In addition, McCrory is required, through April 1988, to keep in effect $2,000,000 of life insurance on Mr. Genger's life. McCrory has agreed, on Mr. Genger's behalf, to pay all premiums on the policy. After April 1988, Mr. Genger or his designee can acquire the policy, and would be obligated to pay McCrory the amount necessary to decrease McCrory's cost in maintaining the policy to $90,000. Upon Mr. Genger's death, McCrory is to be repaid all of its unpaid costs in maintaining the policy out of the proceeds.

Daniel J. Manella

Mr. Manella has been employed as Chairman of the Board of The Botany Shirt Company, a division of a Rapid subsidiary, under an employment contract, dated as of February 1, 1976, as amended as of February 1, 1979. During the year ended January 31, 1980, Mr. Manella earned a salary and bonus of $201,059. On January 31, 1980, the contract expired and only certain retirement and death benefits remain in effect. Pursuant to the contract, Mr. Manella has earned deferred compensation of $100,000, which is payable to him or his designated beneficiaries in 60 equal monthly installments, commencing upon his 60th birthday (or, upon his death, or disability, the month following such event). The contract also provides Mr. Manella with a supplementary allowance payable for life, as follows: commencing January 1, 1985, monthly payments of $1,041, which increases on January 1, 1989, to $1,562 per month. Additionally, if Mr. Manella shall die at anytime prior to December 31, 1994, his designated beneficiaries shall be entitled to receive monthly payments which range from $1,041 to $1,562, depending upon the year in which his death occurs, and a final lump sum payment of $250,000 on January 1, 1995. If Mr. Manella's death shall occur after January 1, 1995, his designated beneficiaries shall be entitled to receive a lump sum payment of $250,000. Mr. Manella's designated beneficiaries have the additional right to receive $250,000 principal amount of 7½% Sinking Fund Subordinated Debentures of McCrory, due May 15, 1994, at anytime after Mr. Manella's death in lieu of the periodic and lump sum payments to which they would otherwise be entitled. Mr. Manella forfeits his supplementary allowance and his designated beneficiaries shall be deemed to have forfeited the death benefits to which they would otherwise be entitled if, within one year after termination of his employment, he engages, directly or indirectly, in any activities which are competitive with the business of Rapid or any of its divisions or subsidiaries.

Bernard J. Blaney

Mr. Blaney, Vice President—Finance and a director of McCrory and Vice President and Treasurer of Rapid, entered into a contract with McCrory effective February 1, 1978, to be employed as an executive through January 31, 1981, which provides for an annual salary of not less than $140,000. If Mr. Blaney becomes incapacitated for a period of at least six consecutive calendar months, his employment may be terminated, in which event he is to receive disability benefits at the rate of $2,000 per month until his 65th birthday. In the event of his death prior to termination of his employment, a payment equal to his then annual salary is to be made to a person Mr. Blaney designates in writing or, absent such a designation, to his estate.

Certain Transactions and Other Matters

Meshulam Riklis and his children own all of the capital stock of KGA Industries, Inc. ("KGA"), and Mona R. Ackerman is a director of KGA. KGA is a manufacturer of ladies handbags and belts. In calendar year 1979, purchases by Lerner and another subsidiary of McCrory of merchandise from KGA, all of which were made in the ordinary course of business, totalled approximately $270,000 (which constituted approximately 2.5% of KGA's sales for such year).

A wholly-owned subsidiary of Kenton, Melville Knitwear Co., Inc. ("Melville"), sells knitted apparel to Lerner and McCrory. Prior to August 31, 1977, Melville was a wholly-owned subsidiary of Shenandoah Corporation, an unaffiliated, publicly-held corporation which was merged into Kenton on that date. During the year ended January 31, 1980, purchases by Lerner and McCrory of merchandise from Melville, all of which were made in the ordinary course of business, totalled approximately $1,359,000 (which constituted approximately 10.6% of Melville's sales for such period). Lerner and McCrory have purchased merchandise from Melville for over the past 30 and 15 years, respectively. In addition, during the year ended January 31, 1980 McCrory purchased approximately $111,000 of merchandise from Plastic Toy and Novelty Corp. ("Plastic Toy"), a wholly-owned subsidiary of Kenton, all of which were made in the ordinary course of business, and which constituted less than 2% of Plastic Toy's sales for such year. Kenton acquired Plastic Toy from unaffiliated persons during 1977 and McCrory has purchased merchandise from Plastic Toy for over the past 15 years.

In the opinion of management, the purchases of merchandise referred to in the preceding two paragraphs were made at prices comparable to those that would obtain in similar transactions with unrelated parties.

In connection with the termination on January 31, 1978 of two shopping center leases by McCrory and Lerner in Springfield, Virginia, the lessor, Franconia Associates ("Franconia"), a partnership in which Meshulam Riklis is the principal partner, became indebted to McCrory for $308,903 and to Lerner for $110,347. As of January 31, 1980, the indebtedness to McCrory and Lerner was $271,794 and $97,069, respectively, payable in 40 constant quarterly payments, bearing interest at the rate of 6% per annum.

In July 1976, Mona R. Ackerman and the two other children of Meshulam Riklis acquired substantially all of the beneficial interest in a shopping mall located in Phoenix, Arizona. The mall, which contains approximately 595,000 square feet of floor space, includes a McCrory variety store occupying approximately 31,350 square feet of floor space with a minimum annual rental of $44,000, and a Lerner store occupying approximately 9,400 square feet (reduced from 13,700 square feet on September 1, 1979) of floor space with a minimum annual rental of $21,232. The leases were each entered into during 1963, expire in 1983 and contain two five year renewal options. The respective leases provide that McCrory and Lerner pay a proportionate share of taxes and operating expenses. In addition, the McCrory and Lerner leases provide for additional payments of 4% of gross sales (as defined), less the minimum annual rent, taxes and operating expenses. During the year ended January 31, 1980, McCrory's aggregate rental payment was approximately $73,000 and Lerner's aggregate rental payment was approximately $44,000. Such rentals constituted approximately 6% of the gross rental income of the shopping mall for such year. Those leases, which were entered into before Mr. Riklis' children acquired their beneficial interest in the shopping mall, are, in the opinion of the respective managements of McCrory and Lerner, on terms comparable to those prevailing generally for similar space in the area.

During the year ended January 31, 1980, Rapid and its subsidiaries paid legal fees of $244,067 and made office facilities and secretarial services available to a professional corporation in which Arnold Broser is president and sole stockholder. Mr. Broser, an attorney and certified public accountant, has been a tax consultant to Rapid and subsidiaries since 1957 (acting in his individual capacity or as principal in a law or certified public accounting firm) and has been president of Kenton since February 1976. The professional corporation borrowed $210,000 from McCrory, of which $189,000 is presently outstanding, payable in nine equal annual installments with interest at the rate of 6% per annum. The unpaid balance of such borrowing will be cancelled upon the death of Mr. Broser or the termination of the services of the professional corporation. (See "Remuneration and Employment Agreements" above, for the compensation of Messrs. Silverberg, Divine, Genger and Manella, directors of both Kenton and Rapid).

McCrory and certain of its subsidiaries lease certain properties from wholly-owned corporations of the McCrory Stores Pension Plan. Pursuant to such leases, during the year ended January 31, 1980, rentals of approximately $736,000 were paid.

During the year ended January 31, 1980, Lerner paid to the Lerner's Employees Retirement Trust rentals of approximately $54,000, covering three locations leased by Lerner. Lerner at its option may purchase, or at the option of said Trust may be required to purchase, the premises under lease for a total of approximately $900,000. Of this amount, approximately $800,000 applies to two locations previously sold to said Trust by Lerner at the same price.

During the year ended January 31, 1980, Otasco, Inc. paid to the Otasco Employees Retirement Trust rentals of approximately $256,000 covering locations leased by Otasco, Inc. from such Trust.

In the opinion of management, the terms of the leases referred to in the preceding three paragraphs are comparable to those prevailing generally for similar space in the areas in which such properties are located.

For a description of certain indebtedness of Messrs. Riklis, Becker and Lane to Rapid, which arose out of the settlement of a stockholders' derivative action, see Item 5 "Legal Proceedings—*Litigation Related to Compensation and Other Matters*" and Schedule II.

For a description of the indebtedness of Franconia, a partnership in which Mr. Riklis is the principal partner, to McCrory and Lerner, see above.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID-AMERICAN CORPORATION
(Registrant)

By B. J. BLANEY

Bernard J. Blaney
Vice President and Treasurer

Dated: April 18, 1980

INDEX TO SUPPLEMENTAL SCHEDULES

Schedules Omitted

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required, or because the information required therein is set forth in the financial statements or the notes thereto.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM OFFICERS—COMPANY AND CONSOLIDATED

For the Years Ended January 31, 1980 and 1979

(In Thousands)

Column A	Column B	Column C	Column D	Column E	
	Balance at beginning of period			Balance at end of period	
Name of debtor		Additions	Deductions	Current	Not current
1980:					
Meshulam Riklis(1)	$ 41	$ 3(2)	$10	$10	$24
Leonard C. Lane	20	2(2)	5	5	12
Isidore A. Becker	102	9(2)	25	25	61
Total	$163	$14	$40	$40	$97
1979:					
Meshulam Riklis(1)		$ 41(3)		$10	$ 31
Leonard C. Lane		20(3)		5	15
Isidore A. Becker		102(3)		25	77
Total		$163		$40	$123

Notes:

(1) Upon the termination of two shopping center leases by McCrory and Lerner in Springfield, Virginia, the lessor, Franconia Associates, a partnership in which Meshulam Riklis is the principal partner, became indebted to McCrory for $308,903 and to Lerner for $110,347. As of January 31, 1980, the indebtedness to McCrory and Lerner was $271,794 and $97,069, respectively, payable in 40 constant quarterly payments, bearing interest at the rate of 6% per annum.

(2) Imputed interest.

(3) Due in five equal annual installments which commenced March 31, 1979, discounted to present value, at 9.95%, over life of obligations.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS—COMPANY

For the Years Ended January 31, 1980 and 1979

(Dollar Amounts In Thousands)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Year		Additions		Deductions		Balance at End of Year	
Name of Issuer and Description of Investment	Number of Shares or Units, Principal Amount of Bonds and Notes	Amount in Dollars	Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons For the Period	Other	Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units, Principal Amount of Bonds and Notes	Amount in Dollars
1980:								
SUBSIDIARIES CONSOLIDATED—								
Common Stock (unless indicated otherwise):								
McCrory Corporation	5,046,825	$ 91,279	$55,147		$40,172	(1)$ 2,442	5,046,825	$103,812
McCrory Corporation (Preference)		3,235						3,235
Schenley Industries, Inc.	200	335,623	13,044		6,750		200	341,917
McGregor-Doniger Inc			3,332	(1)$ 84 (2) 4,189		(3) 3,852	1,000	3,753
McGregor-Doniger Inc (Preferred)				(4) 49,715				49,715
Glen Alden Corporation	200	48,731	398			(5) 26,266 (6) 22,863 (4) 31,007		
Rapid-American Menswear, Inc.	10	29,084	143	(7) 2,999			10	1,219
RAAM Information Services Corporation	100,000	(637)	10				100,000	(627)
View Top Corporation	100	118	583				100	701
Triple Eight Corporation	2	(1,985)	7				2	(1,978)
Theatre Venture, Inc.	1	(142)	(23)				1	(165)
Anvil Brand Incorporated			(7)	(9) 41,804		(4) 18,708 (5) 4,708	100	18,381
		505,306	72,634	98,791	46,922	109,846		519,963
SUBSIDIARY NOT CONSOLIDATED—								
ILC Industries, Inc	555,054	920	1,571				555,054	2,491
Total		$506,226	$74,205	$98,791	$46,922	$109,846		$522,454
1979:								
SUBSIDIARIES CONSOLIDATED—								
Common Stock (unless indicated otherwise):								
McCrory Corporation	5,046,825	$ 55,670	$55,349	(1)$ 432	$20,172		5,046,825	$ 91,279
McCrory Corporation (Preference)		3,218		(8) 17				3,235
Schenley Industries, Inc.	200	350,256	11,567		26,200		200	335,623
Glen Alden Corporation	200	49,675	3,406			(1)$4,350	200	48,731
Rapid-American Menswear, Inc.	10	27,290	1,794				10	29,084
RAAM Information Services Corporation	100,000	(692)	55				100,000	(637)
View Top Corporation	100	164	(46)				100	118
Triple Eight Corporation	2	(1,980)	(5)				2	(1,985)
Theatre Venture, Inc.	1	(87)	(55)				1	(142)
Halston Menswear Inc.	5	(1,020)		(6) 1,020				
		482,494	72,065	1,469	46,372	4,350		505,306
SUBSIDIARY NOT CONSOLIDATED—								
ILC Industries, Inc.	555,054	143	777				555,054	920
Total		$482,637	$72,842	$1,469	$46,372	$4,350		$506,226

NOTES:

1. Rapid's portion of other changes in common stockholders' equity
2. Cost of acquiring common stock.
3. Excess of cost over acquired equity, including $754,000 of equity in losses prior to acquisition of majority interest
4. Contribution of the net assets of the operating divisions of Rapid-American Menswear Inc. and Anvil Brand, Incorporated.
5. Dividend of wholly-owned subsidiary to Parent Company.
6. Liquidated into parent.
7. Capital contribution of intercompany account
8. Rapid purchased 68 shares of McCrory $6 Cumulative Preference Stock and 101 shares of McCrory 4½% Preference B Stock.
9. Transferred from Glen Alden.
10. Reconciliation of investments in and advances to subsidiaries as per Parent Company condensed balance sheets:

	1980	1979
Amounts as per above	$522,454	$506,226
Amounts as per Schedule IV and X (net)	(53,784)	(8,896)
	$468,670	$497,330

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

Indebtedness of and to Affiliates and Other Persons—Not Current—Company

For the Years Ended January 31, 1980 and 1979

(In Thousands)

Column A	Column B		Column C	
	Balance at Beginning of Year		Balance at Close of Year	
Name of Affiliate	Receivable	Payable	Receivable	Payable
1980:				
SUBSIDIARIES CONSOLIDATED				
McCrory Corporation		$ 2,037		$39,671
Schenley Industries, Inc.	$ 948		$ 2,101	
Glen Alden Corporation(1)		24,012		
McGregor-Doniger Inc.				2,915
Rapid-American Menswear, Inc.	4,325			635
RAAM Information Services Corporation	1,789		886	
View Top Corporation	2,236		428	
Triple Eight Corporation	1,986		1,978	
Theatre Venture, Inc.	495		801	
Anvil Brand Incorporated				22,496
	11,779	26,049	6,194	65,717
SUBSIDIARY NOT CONSOLIDATED:				
ILC Industries, Inc.	5,374		5,739	
Total(2)	$17,153	$26,049	$11,933	$65,717
1979:				
SUBSIDIARIES CONSOLIDATED.				
McCrory Corporation		$ 207		$ 2,037
Schenley Industries, Inc.	$ 2,881		$ 948	
Glen Alden Corporation		23,909		24,012
Rapid-American Menswear, Inc.	2,107		4,325	
RAAM Information Services Corporation	1,420		1,789	
View Top Corporation	681		2,236	
Triple Eight Corporation	1,981		1,986	
Theatre Venture, Inc.	235		495	
Halston Menswear Inc (1)	947			
	10,252	24,116	11,779	26,049
SUBSIDIARY NOT CONSOLIDATED:				
ILC Industries, Inc.	5,105		5,374	
Total(2)	$15,357	$24,116	$17,153	$26,049

NOTES:

1. Liquidated into Parent.

2. Represents the cumulative receivables and payables from the above companies as a result of various intercompany transactions.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

PROPERTY, PLANT AND EQUIPMENT—COMPANY AND CONSOLIDATED

For the Years Ended January 31, 1980 and 1979

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Year	Additions	Sales or Retirements	Other Changes Add (Deduct)	Balance at End of Year
1980:					
COMPANY:					
Land	$ 296				$ 296
Buildings and warehouses	8,727				8,727
Furniture, fixtures and leasehold improvements	1,412	$ 25	$ 304	(1)$ 695	1,828
Machinery and equipment	2,058	91	1,793	(1) 31	387
	12,493	116	2,097	726	11,238
Capital lease	3,506	12	98	(1) 1,090	4,510
Total	$ 15,999	$ 128	$ 2,195	$ 1,816	$ 15,748
CONSOLIDATED:					
Land	$ 8,014	$ 1,084	$ 77		$ 9,021
Buildings, store properties and warehouses	97,129	14,366	1,245	$ (1)	110,249
Furniture, fixtures and leasehold improvements	229,766	28,857	5,215	(2) 660 (3) (8,217) (4) (1,619) 2	244,234
Machinery and equipment	79,757	12,122	3,823	(2) 1,197 (3) (2)	89,248
	414,666	56,429	10,360	(7,983)	452,752
Capital leases	208,531	3,860	6,894	(2) 2,392 (3) (7,711) (4) (7,770)	192,408
Total	$623,197	$60,289	$17,254	$(21,072)	$645,160
1979:					
COMPANY:					
Land	$ 296				$ 296
Buildings and warehouses	8,727				8,727
Furniture, fixtures and leasehold improvements	1,420	$ 150	$ 148	$ (10)	1,412
Machinery and equipment	2,240	14	196		2,058
	12,683	164	344	(10)	12,493
Capital lease	3,506				3,506
Total	$ 16,189	$ 164	$ 344	$ (10)	$ 15,999
CONSOLIDATED:					
Land	$ 8,111	$ 7	$ 104		$ 8,014
Buildings, store properties and warehouses	91,639	7,670	1,996	(3)$ (148) (5) (36)	97,129
Furniture, fixtures and leasehold improvements	227,768	20,276	4,560	(3) (12,935) (5) (16) (4) (767)	229,766
Machinery and equipment	77,335	5,562	3,184	(8) (5) 52	79,757
	404,853	33,515	9,844	(13,858)	414,666
Capital leases	219,128	4,068	5,047	(3) (9,618)	208,531
Total	$623,981	$37,583	$14,891	$(23,476)	$623,197

NOTES:

1. Transfer of fixed assets from a subsidiary to the Parent Company.
2. Assets of companies acquired during the year.
3. Fully depreciated and amortized assets written off against related reserves.
4. Charged to reserve for store closings.
5. Reclassification.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT—COMPANY AND CONSOLIDATED

For the Years Ended January 31, 1980 and 1979

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Sales or Retirements	Other Changes Add (Deduct)	Balance at End of Year
1980:					
COMPANY:					
Buildings and warehouses	$ 2,439	$ 278			$ 2,717
Furniture, fixtures and leasehold improvements	510	134	$ 212	(1)$ 561	993
Machinery and equipment	1,523	59	1,432	(1) 27	177
	4,472	471	1,644	588	3,887
Capital lease	1,464	172	92	(1) 472	2,016
Total	$ 5,936	$ 643	$ 1,736	$ 1,060	$ 5,903
CONSOLIDATED:					
Buildings, store properties and warehouses	$ 42,447	$ 3,597	$ 604	$ (1)	$ 45,439
Furniture, fixtures and leasehold improvements	117,863	15,195	3,094	(2) 257 (3) (8,217) (4) (714)	121,290
Machinery and equipment	51,379	4,277	3,175	(2) 915 (3)	53,393
Excess credit related to acquisition of J. J. Newberry Co.	6,972	(5) (1,946)	287		4,739
	218,661	21,123	7,160	(7,763)	224,861
Capital leases	134,405	8,734	4,999	(2) 453 (3) (7,711) (4) (5,002)	125,880
Total	$353,066	$29,857	$12,159	$(20,023)	$350,741
1979:					
COMPANY:					
Buildings and warehouses	$ 2,161	$ 278			$ 2,439
Furniture, fixtures and leasehold improvements	500	153	$ 143		510
Machinery and equipment	1,583	88	148		1,523
	4,244	519	291		4,472
Capital lease	1,398	66			1,464
Total	$ 5,642	$ 585	$ 291		$ 5,936
CONSOLIDATED:					
Buildings, store properties and warehouses	$ 41,065	$ 2,881	$ 1,336	(3)$ (148) (2) (15)	$ 42,447
Furniture, fixtures and leasehold improvements	119,683	14,611	3,203	(3) (12,935) (2) (18) (4) (275)	117,863
Machinery and equipment	48,932	4,199	1,776	(9) (2) 33	51,379
Excess credit related to acquisition of J. J. Newberry Co	8,918	(5) (1,946)			6,972
	218,598	19,745	6,315	(13,367)	218,661
Capital leases	138,826	8,840	3,643	(3) (9,618)	134,405
Total	$357,424	$28,585	$ 9,958	$(22,985)	$353,066

NOTES:

1. Transfer of fixed assets from a subsidiary to the Parent Company.
2. Reclassification and other changes.
3. Fully depreciated and amortized assets written off.
4. Applied against reserve for store closings
5. Represents the amortization of the excess of net assets acquired over the cost of the acquisition of J. J. Newberry Co. (see Note 1 to Financial Statements).

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INTANGIBLE ASSETS—COMPANY AND CONSOLIDATED

For the Years Ended January 31, 1980 and 1979

(In Thousands)

Column A	Column B	Column C	Column E	Column F
Description	Balance at Beginning of Year	Additions At Cost	Other Changes Add (Deduct)	Balance at End of Year
1980:				
COMPANY:				
Intangible Assets:				
Excess of cost of investments in subsidiaries over related equities	$212,454	$3,226		$215,680
Franchises	50,000			50,000
Total	$262,454	$3,226		$265,680
CONSOLIDATED:				
Intangible Assets:				
Excess of cost of investments in subsidiaries over related equities	$276,188	$3,997	$(342)	$279,843
Franchises	50,000			50,000
Trademarks	4,661	296		4,957
Total	$330,849	$4,293	$(342)	$334,800
1979:				
COMPANY:				
Intangible Assets:				
Excess of cost of investments in subsidiaries over related equities	$206,373	$6,090	$ (9)	$212,454
Franchises	50,000			50,000
Total	$256,373	$6,090	$ (9)	$262,454
CONSOLIDATED:				
Intangible Assets:				
Excess of cost of investments in subsidiaries over related equities	$270,119	$6,090	$ (21)	$276,188
Franchises	50,000			50,000
Trademarks	4,902	1	(242)	4,661
Total	$325,021	$6,091	$(263)	$330,849

Column D has been omitted because the answer in all instances would be "None".

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

ACCUMULATED DEPRECIATION AND AMORTIZATION OF INTANGIBLE ASSETS— COMPANY AND CONSOLIDATED

For the Years Ended January 31, 1980 and 1979

(In Thousands)

Column A	Column B	Column C	Column E
Description	Balance at Beginning of Year	Additions Charged To Costs and Expenses	Balance at End of Year
1980:			
COMPANY:			
Intangible Assets:			
Excess of cost of investments in subsidiaries over related equities	$15,239	$2,694	$17,933
Franchises	2,517	399	2,916
Total	$17,756	$3,093	$20,849
CONSOLIDATED:			
Intangible Assets:			
Excess of cost of investments in subsidiaries over related equities	$23,130	$4,179	$27,309
Franchises	2,517	399	2,916
Trademarks	1,630	170	1,800
Total	$27,277	$4,748	$32,025
1979:			
COMPANY:			
Intangible Assets:			
Excess f cost of investments in subsidiaries over related equities	$12,749	$2,490	$15,239
Franchises	2,119	398	2,517
Total	$14,868	$2,888	$17,756
CONSOLIDATED:			
Intangible Assets:			
Excess of cost of investments in subsidiaries over related equities	$19,164	$3,966	$23,130
Franchises	2,119	398	2,517
Trademarks	1,501	129	1,630
Total	$22,784	$4,493	$27,277

Column D has been omitted because the answer in all instances would be "None".

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

BONDS, MORTGAGES AND SIMILAR DEBT—COMPANY AND CONSOLIDATED

January 31, 1980

(In Thousands)

Column A	Column B	Column C	Column D		Column E	Column H	
			Amount Included in Column C, Which is		Amount Included in Sum Extended Under Caption "Long-Term Debt—Less Current Maturities" in Related Balance Sheet	Amount Held by Affiliates for Which Statements Are Filed Herewith	
Name of Issuer and Title of Each Issue	Amount Authorized by Indenture	Amount Issued and Not Retired or Canceled	Held by or for Account of Issuer Thereof	Not Held by or for Account of Issuer Thereof		Persons Included in Consolidated Statement	Others
LONG-TERM DEBT AT JANUARY 31, 1980							
Parent Company:							
Bonds payable:							
7½% sinking fund subordinated debentures, due 1985 (sinking fund payments began in 1972 and continue through 1984) [effective interest rate 9.38%]	$105,000	$ 62,799	$18,324	$ 44,475	$ 44,475	None	None
6% sinking fund subordinated debentures, due 1988 [effective interest rate 8%]	500,000	142,995	None	142,995	142,995	$40,881	None
7% subordinated debentures, due May 15, 1994 (1969 Issue) [effective interest rate 9.33%]	70,000	51,766	None	51,766	51,766	None	None
7% subordinated debentures, due May 15, 1994 (1972 Issue) [effective interest rate 9.86%]	100,000	66,277	None	66,277	66,277	None	None
12% sinking fund subordinated debentures, due 1999 (sinking fund payments begin in 1987 and continue through 1997) [effective interest rate 12.87%]	55,000	17,926	None	17,926	17,926	None	None
10¾% sinking fund subordinated debentures, due 2003 (sinking fund payments begin in 1989 and continue through 2002) [effective interest rate 13.67%]	300,000	153,141	None	153,141	153,141	None	None
10¾% sinking fund subordinated debentures, due 2004 (sinking fund payments begin in 1990 and continue through 2003) [effective interest rate 13.71%]	82,500	5,870	None	5,870	5,870	None	None
11% sinking fund subordinated debentures, due 2005 (sinking fund payments begin in 1991 and continue through 2004) [effective interest rate 14.04%]	25,000	15,510	None	15,510	15,510	None	None
Sundry mortgages payable, 2% to 10¼%, due to 1996(5)		4,713	None	4,713	4,473	None	None
					502,433		
Less unamortized discount					90,836		
Total Parent Company					$411,597		

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

BONDS, MORTGAGES AND SIMILAR DEBT—COMPANY AND CONSOLIDATED

January 31, 1980

(In Thousands)

Column A	Column B	Column C	Column D		Column E	Column H	
			Amount Included in Column C, Which is		Amount Included in Sum Extended Under Caption "Long-Term Debt—Less Current Maturities" in Related Balance Sheet	Amount Held by Affiliates for Which Statements Are Filed Herewith	
Name of Issuer and Title of Each Issue	Amount Authorized by Indenture	Amount Issued and Not Retired or Canceled	Held by or for Account of Issuer Thereof	Not Held by or for Account of Issuer Thereof		Persons Included in Consolidated Statement	Others
LONG-TERM DEBT AT JANUARY 31, 1980—(Forward)					$411,597		
Consolidated subsidiaries:							
McCrory Corporation and Subsidiaries:							
Bonds payable:							
5% junior sinking fund subordinated debentures, due July 15, 1981	$ 14,000	$ 6,597	None	$ 6,597	6,597	None	None
6½% sinking fund subordinated debentures, due September 1, 1982 [effective interest rate 8.7%]	27,000	3,905	None	3,905	3,905	None	None
10½% sinking fund subordinated debentures, due August 15, 1985 [effective interest rate 11.3%]	23,500	6,972	None	6,972	6,972	None	None
6½% convertible subordinated debentures, due February 15, 1992 [effective interest rate 6.9%](6)	80,000	3,379	None	3,379	3,379	None	None
7½% sinking fund subordinated debentures, due May 15, 1994 [effective interest rate 9.5%]	100,000	56,562	$1,081	55,481	55,481	None	None
6½% convertible subordinated debentures, due August 1, 1994(7)	10,000	1,132	None	1,132	1,132	None	None
7¾% sinking fund subordinated debentures, due September 15, 1995 [effective interest rate 12.1%]	135,000	75,551	None	75,551	75,551	$13,107	None
7⅝% sinking fund subordinated debentures, due December 15, 1997 [effective interest rate 9.8%]	80,000	55,544	None	55,544	55,544	None	None
Notes payable:							
Notes payable to banks due in varying installments to December 1983 (interest at ½ of 1% above prime rate)(4)		60,000	None	60,000	60,000	None	None
5¼% subordinated notes, payable in annual instalments to October 1, 1981		2,071	None	2,071	1,038	None	None
Sundry notes and mortgages payable, 2% to 15¾%, due to 1996		5,037	None	5,037	4,820	None	None
Schenley Industries, Inc.:							
10% notes payable to insurance companies, due in varying installments to December 1, 1991		110,400	None	110,400	105,800	None	None
Notes payable to banks under revolving credit agreement due February, 1982 (interest at 108% of prime rate)		56,800	None	56,800	56,800	None	None
Anvil Brand, Inc.:							
Sundry mortgages(5)		257	None	257	192	None	None
Forward					$848,808		

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

BONDS, MORTGAGES AND SIMILAR DEBT—COMPANY AND CONSOLIDATED

January 31, 1980

(In Thousands)

Column A	Column B	Column C	Column D		Column E	Column H	
			Amount Included in Column C, Which is		Amount Included in Sum Extended Under Caption "Long-Term Debt—Less Current Maturities" In Related Balance Sheet	Amount Held by Affiliates for Which Statements Are Filed Herewith	
Name of Issuer and Title of Each Issue	Amount Authorized by Indenture	Amount Issued and Not Retired or Canceled	Held by or for Account of Issuer Thereof	Not Held by or for Account of Issuer Thereof		Persons Included in Consolidated Statement	Others
LONG-TERM DEBT AT JANUARY 31, 1980—(Forward)					$848,808		
Consolidated subsidiaries—(Continued):							
McGregor-Doniger Inc:							
Notes payable to banks and insurance companies $250,000 due quarterly to February 15, 1986 (interest at 5% to May 15, 1982, then at prime rate)		$6,250	None	6,250	5,250	None	None
View Top Corporation:							
Notes payable $250,000 due quarterly to December 31, 1986, (interest at 108% of prime rate)(5)		7,000	None	7,000	6,000	None	None
					860,058		
Less subsidiaries unamortized discount					36,460		
					823,598		
Less amounts held by affiliates (net of unamortized discount)					40,869		
Total consolidated					$782,729		

NOTES:

1. See Note 5 to Financial Statements
2. Columns F and G have been omitted because the answers in all instances would be "None".
3. Effective interest rates are indicated where they differ from the stated interest rates
4. The notes are secured by the pledge of the shares of capital stock of Lerner and by Rapid's guarantee (see Note 5 to Financial Statements).
5. Mortgages and notes aggregating $16,600,000 are secured by land, buildings and equipment having an approximate carrying value of $19,800,000
6. Convertible into Rapid Common Stock at $70.00 per share, subject to anti-dilution.
7. Convertible into J. J. Newberry Co. (a subsidiary of McCrory) common stock at $150.00 principal amount per share.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES—COMPANY AND CONSOLIDATED

For the Years Ended January 31, 1980 and 1979
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Year
1980:					
COMPANY:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable—trade	$ 82	$ 1,133	$1,595(3)	$ 1,945	$ 865
Doubtful accounts receivable—other(1)	32	467	87(3)		586
Total	114	1,600	1,682	1,945	1,451
Reserves for revaluation of investment in common stock of unconsolidated subsidiary(2)	416				416
Total	$ 530	$ 1,600	$1,682	$ 1,945	$1,867
CONSOLIDATED:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 4,395	$ 1,477		$ 1,114	$ 4,758
Transportation claims	149				149
Allowance for discounts and allowances	421	1,627		1,947	101
Total	4,965	3,104		3,061	5,008
Doubtful accounts receivable—other(1)	180	597	$ 350	369	758
Total	5,145	3,701	350	3,430	5,766
Reserves for revaluation of investment in common stock of unconsolidated subsidiary and affiliated companies(2)	8,424	5		1,238	7,191
Reserves for store closings	32,363	2,306(5)	2,171(4)	8,146	28,694
Total	40,787	2,311	2,171	9,384	35,885
Total	$45,932	$ 6,012	$ 2,521	$12,814	$41,651
1979:					
COMPANY:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable—trade	$ 91	$ 9		$ 18	$ 82
Doubtful accounts receivable—other(1)	34			2	32
Total	125	9		20	114
Reserves for revaluation of investment in common stock of unconsolidated subsidiary(2)	413	3			416
Total	$ 538	$ 12		$ 20	$ 530
CONSOLIDATED:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 4,634	$1,225		$1,464	$4,395
Transportation claims	150			1	149
Allowance for discounts and allowances	637	612		828	421
Total	5,421	1,837		2,293	4,965
Doubtful accounts receivable—other(1)	206	38		64	180
Total	5,627	1,875		2,357	5,145
Reserves for revaluation of investment in common stock of unconsolidated subsidiary and affiliated companies(2)	7,135	1,289			8,424
Reserves for store closings	40,519	2,728(5)		10,884	32,363
Total	47,654	4,017		10,884	40,787
Total	$53,281	$5,892		$13,241	$45,932

NOTES:

1. Reserve account has been netted against applicable accounts receivable.
2. Deducted from investments to which they apply.
3. Transfer from a subsidiary to the Parent Company.
4. Transfer of related capital lease obligation and excess credit.
5. Includes imputed interest of $2,167,000 in 1980 and $2,588,000 in 1979.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CAPITAL SHARES, JANUARY 31, 1980

(Dollar Amounts In Thousands)

Column A	Column B	Column C	Column D		Column E		Column F		Column G	
			Number of Shares Included in Column C Which Are		Shares Issued or Outstanding as Shown on or Included in Related Balance Sheet Under Caption "Capital Shares"		Number of Shares Held by Affiliates For Which Statements Are Filed Herewith		Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	
Name of Issuer and Title of Issue	Number of Shares Authorized by Charter	Number of Shares Issued and Not Retired or Canceled	Held by or for Account of Issuer Thereof	Not Held by or for Account of Issuer Thereof	Number	Amount at Which Shown	Persons Included in Consolidated Statements	Others	Directors, officers, and employees	Others
RAPID-AMERICAN CORPORATION:										
$3.00 Redeemable Preference Stock(1)	3,011,910	2,671,790	None	2,671,790	2,671,790	$53,476	None	None	None	None
Class B senior cumulative convertible ($3) preferred	2,172,995	61,989	None	61,989	61,989	$ 3,370	None	None	None	None
$3.15 cumulative convertible preferred	1,300,000	3,897	None	3,897	3,897	238	None	None	None	None
$2.25 cumulative convertible junior preferred stock, series issue, $2.00 par value	397,777	41,015	None	41,015	41,015	82	None	None	None	None
Common stock, $1.00 par value	50,000,000	5,098,171	None	5,098,171	5,098,171	5,098	None	None	131,800(2)	6,021,077(2)
Total preferred and common stocks						$ 8,788				
MINORITY INTEREST:										
Preferred and Preference Stock:										
McCrory Corporation:										
$6.00 cumulative convertible preference stock, $100 par value	94,725	94,725	None	94,725	None	$ 7,696	17,769	None	None	None
Preference B stock, $100 par value, series issue, authorized 107,981 shares:										
5½% series, cumulative (subordinated)	1,824	1,292	None	1,292	None	129	None	None	None	None
4½% series, cumulative (subordinated)	60,201	59,963	None	59,963	None	4,538	14,579	None	None	None
J. J. Newberry Co.:										
Preferred stock, cumulative $100 par value, issuable in series—3¾% series	92,063	67,063	None	67,063	None	3,665	2,539	None	None	None
Total minority interest in preferred and preference stocks						$16,028				
COMMON STOCK OF SUBSIDIARIES:										
McCrory Corporation:										
Common stock, $.50 par value	6,500,000	5,046,825	None	5,046,825	None	None	5,046,825	None	None	20,298(3)
J. J. Newberry Co:										
Common stock, no par value	500,000	447,431	None	447,431	None	None	447,431	None	None	7,547

NOTES:

1. Subject to mandatory redemption at $25 per share (see Note 6).
2. See Notes 7 and 8 to Financial Statements
3. Shares will not be issued if the holders elect to receive Rapid common stock upon conversion of their convertible preferred stock (see Note 7 to Financial Statements).

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

COMPUTATION OF NET INCOME PER COMMON SHARE

The computation of primary income per share is summarized as follows:

	Year Ended January 31,				
	1980	1979	1978	1977	1976
	(In Thousands, Except Per Share Amounts)				
Computation of Primary Net Income Applicable to Common Stockholders					
Net income applicable to common stockholders	$30,987	$42,624	$45,765	$11,917	$ 3,623
Add—assumed adjustments to net income applicable to common stockholders resulting from:					
Reduction of interest expense arising from proceeds of assumed exercise of stock options and warrants applied to the assumed repurchase of debt, net of applicable Federal income tax	4,855	4,067	—	—	—
Primary net income applicable to common stockholders	$35,842	$46,691	$45,765	$11,917	$ 3,623
Computation of Primary Shares					
Weighted average shares outstanding	6,614	7,756	7,854	7,734	6,894
Add shares assumed to be issued upon:					
Exercise of stock options and warrants, net of repurchase with proceeds from exercise thereof	1,262	989	—	—	—
Primary shares	7,876	8,745	7,854	7,734	6,894
Primary Income Per Share	$ 4.55	$ 5.34	$ 5.83	$ 1.54	$ .53

The computation of fully diluted income per share is summarized as follows:

	Year Ended January 31,				
	1980	1979	1978	1977	1976
	(In Thousands, Except Per Share Amounts)				
Computation of Fully Diluted Net Income					
Net income applicable to common stockholders	$30,987	$42,624	$45,765	$11,917	$ 3,623
Add assumed adjustments to net income resulting from:					
Reduction of interest expense on convertible debt assumed converted and from proceeds of assumed exercise of stock options and warrants applied to the assumed repurchase of debt, net of applicable Federal income tax	7,731	6,670	120	—	—
Convertible preferred dividends	656	889	942	918	—
Total	8,387	7,559	1,062	918	—
Fully diluted net income	$39,374	$50,183	$46,827	$12,835	$ 3,623
Computation of Fully Diluted Shares					
Shares used for computation of primary income per share	7,876	8,745	7,854	7,734	6,894
Add shares assumed to be issued (exclusive of common stock equivalents included in shares used for computation of primary income per share) upon:					
Exercise of stock options and warrants, net of repurchase with proceeds from exercise thereof	990	990	—	—	—
Conversion of convertible preferred stocks	878	1,185	1,260	1,263	—
Conversion of convertible debentures and notes	48	48	48	—	—
Fully diluted shares	9,792	10,968	9,162	8,997	*
Fully Diluted Income Per Share	$ 4.02	$ 4.58	$ 5.11	$ 1.43	*

* Anti-dilutive.

CORPORATE OFFICERS

MESHULAM RIKLIS
Chairman of the Board and
Chief Executive Officer

LORENCE A. SILVERBERG
President and
Chief Operating Officer

ISIDORE A. BECKER
Vice Chairman of the Board

HAROLD S. DIVINE
Vice Chairman of the Board

LEONARD C. LANE
Chairman of the
Executive Committee and
Executive Vice President

ARIE GENGER
Vice President and
Executive Assistant to the
Chairman of the Board

BERNARD J. BLANEY
Vice President and Treasurer

MICHAEL J. MAGENHEIM
Controller

STUART H. AARONS
Secretary

Product names printed in *Italics*
indicate trademarks or trade names.

BOARD OF DIRECTORS

MESHULAM RIKLIS*
Chairman of the Board and Chief Executive Officer
of Rapid-American Corporation and
Vice Chairman of the Board of McCrory
Corporation

LORENCE A. SILVERBERG*
President and Chief Operating Officer
of Rapid-American Corporation and Chairman of the
Board and Chief Executive Officer
of McCrory Corporation

MONA R. ACKERMAN
Senior Editor, Jove Books
(paperback publishing company)

ISIDORE A. BECKER*
Vice Chairman of the Board of Rapid-American
Corporation and of McCrory Corporation and
Chairman of the Board and Chief Executive
Officer of Schenley Industries, Inc.

GEORGE V. DELSON†
C.P.A.; Senior Partner of George V. Delson
Associates (tax and financial consultants)

HAROLD S. DIVINE*
Vice Chairman of the Board
of Rapid-American Corporation

ARIE GENGER
Vice President and Executive Assistant to the
Chairman of the Board of Rapid-American
Corporation and President and Chief
Operating Officer of McCrory Corporation

SEYMOUR KLEINMAN
Senior Partner, law firm of Golenbock and Barell
and Lecturer in Finance and Secured
Transactions, Columbia University Law School

BERNARD KOBROVSKY†
Private investor

FRED KORROS
Account Executive, Bache Halsey Stuart & Shields
Incorporated (investment securities)

LEONARD C. LANE*
Chairman of the Executive Committee and
Executive Vice President of Rapid-American
Corporation and Chairman of the Board of ILC
Industries, Inc. (electronic conversion
equipment and protective clothing)

SAMUEL J. LEVY*†
Chairman of the Board of Southern Packaging
& Design Corp. (woven labels)

DANIEL J. MANELLA
Chairman of the Board of Kenton Corporation
(manufacturer of consumer products and
operator of two thoroughbred race tracks)

DAN PALMON
Assistant Professor of Accounting, New York
University Graduate School of Business

PINHAS RIKLIS
Private investor

LEO D. STONE
Lecturer in Finance, University of South Florida

HELEN H. UPDIKE
Assistant Professor of Economics,
Hofstra University

*Member of the Executive Committee
†Member of the Audit Committee

CORPORATE INFORMATION

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EXECUTIVE OFFICES

888 Seventh Avenue
New York, N.Y. 10019
(212) 399-4500

TRANSFER AGENTS

Common Stock,
$2.25 Preferred Stock,
$3.15 Preferred Stock and
Redeemable Common
Stock Purchase Warrants

Chemical Bank
55 Water St. (Room 536)
New York, N.Y. 10041
(212) 952-2176

$3.00 Preferred Stock and
$3.00 Redeemable Preference Stock

Marine Midland Bank, N.A.
140 Broadway—12th Floor
New York, N.Y. 10015
(212) 797-8230

All securities are traded on the New York Stock Exchange, Inc. except the Warrants which are traded on the American Stock Exchange, Inc. Shares of $3.15 Preferred Stock are infrequently traded and not listed on any stock exchange.

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